5TH ANNUAL INVESTMENT FORECAST ISSUE

DECEMBER/JANUARY, 1987

Money Maker

Your Guide to Financial Security & Wealth

A CONSUMER DIGEST, INC. PUBLICATION

HOW TO PROFIT IN '87

STOCKS & BONDS
MUTUAL FUNDS
REAL ESTATE
PENNY STOCKS
PRECIOUS METALS
COMMODITIES
TAXES & MORE

IF ONLY...

A friend wrote: "If only I'd listened early in 1985 when you said stocks would boom. Within a year, you said, Dow Jones Industrials would reach 1500—and take another leap in 1986. It seemed impossible. Nothing like it had ever happened in my lifetime. So I did nothing—and didn't share the amazing profits that were made. If only I had listened to you."

If only. What sad words. If only I'd done this or that, I'd be rich today. If only.

Dear Investor:

My name is Philip J. Neimark, and I am a trader. I trade for myself and advise a select group of clients—some of whom believe I have a "sixth sense." I don't know about that, but I do know I've made a lot of money both for myself and for them. Although nobody is right 100% of the time, I became a millionaire, and friends who take my advice are very much my friends. And why not? Not only have they made money in stocks, but they also have done well by trading in foreign currencies and precious metals. (Some will never forget that I recommended buying gold at $140 an ounce, and it skyrocketed to $870. They made wondrous profits.)

Now, as an extra service to MONEY MAKER members, I have been asked to take on a limited number of new clients. Please consider whether you want to join them. If so, I'll put you on our mailing list to get PRO TRADE (formerly known as "Philip J. Neimark's Viewpoint").

Here's What You Will Get

PRO TRADE is a letter I peck out with my own fingers 24 times a year—each letter about six pages long. My assistants immediately run off copies for people on my mailing list, and rush them out the very same day by first class mail.

The letter gives you my personal thoughts about the economy, interest rates, world affairs, and other factors that affect stocks, bonds, and other investments. Knowledge is power, and I want you to know the outlook for oil prices, the prime rate, unemployment levels, inflation, and much more—and I want you to know all this before the general public knows. I want you to buy before the crowd rushes in. I want you to sell before downswings—to lock in profits before selling panic hits the markets.

In other words, just as sure as God made little green apples, if you follow the mob, you will lose money, but if you are a leader instead of a follower—if you take advantage of price swings before everybody else—you will become rich. It's that simple.

But you get more than that in PRO TRADE. I will also recommend my favorite stocks for a professional portfolio, with prices at which you should buy and sell—recommended short-term trades—options—and other specific investments.

You Don't Need Much Money To Start

You can start investing without big cash reserves. Not many of us inherit large bankrolls. Most start with modest savings, and my letters offer advice for those with just a few thousand dollars, as well as guidance for others with much larger portfolios to manage.

And let me say this. I am not wishy-washy. I don't sit on the fence. I won't tell you to "do this on one hand—do that on the other hand." I tell you straight out what to buy—when to buy—when to sell. So you need no special knowledge. There's nothing hard to figure out.

I ask only two things. First, take time to read PRO TRADE. It's not grim. It's easy to read—even fun to read. Second, please follow its advice. Some people seem frozen by uncertainty, and won't take an action. I can't help them. But if you want to be rich, and believe in yourself—if you have the fortitude to reach for wealth—I'll do my best to make your dreams come true.

Be Glad You're Not An "If Only" Person

"If only" people can't seem to act for their own benefit. They look back over the years and think "if only" they had taken advantage of lost opportunities. It seems clear that you're not such a person, because you read Money Maker. Money Maker people believe in helping themselves, and look for ways to both make money and save money. They are do-ers, not wishers.

That's the good news, and here's more good news: It's not too late to get rich. New fortunes are being made every day in America. This is truly the land of opportunity, and every year there are tens of thousands of new millionaires.

Let Me Send You A 90-Day Trial

PRO TRADE is normally one year for $195 (tax deductible if used for business or investment purposes)—but with your permission I'll add you to our regular mailing list at a Special Get-Acquainted Rate of 90 days for only $25. I just want you to try PRO TRADE to see if you like it.

You take no risk—you have no obligation. You may cancel at the end of your 90-day trial, if you wish—or simply do nothing, and we'll bill you for automatic continuous service. So please mail this coupon at once to start getting home or office delivery on PRO TRADE as soon as possible.

DOUBLE BONUS: Reply right away, and you will receive—FREE—"Secrets of Successful Trading" PLUS the name of my #1 stock pick for gains during the next 12 months.

Pro Trade

Send me PRO TRADE. Enclosed is my check payable to PRO TRADE for the term indicated below. I understand that I may cancel at any time without penalty.

☐ 3 months at Special $25 Get-Acquainted Rate ☐ 1 year (24 issues) $195

☐ Check enclosed ☐ Charge my VISA ☐ Charge my MasterCard

Card #_____ Card expires_____

Philip J. Neimark (Doctor of Business Management, SEC registered Investment Adviser, CFTC-registered Commodity Adviser) is a current or former member of International Monetary Market, N.Y. Merchantile Exchange, and Chicago Board Options Exchange. Past performance is no guarantee of future results. (Not assignable without consent.)

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Money Maker®

VOLUME EIGHT/NUMBER ONE: December/January, 1987

A CONSUMERS DIGEST, INC. PUBLICATION

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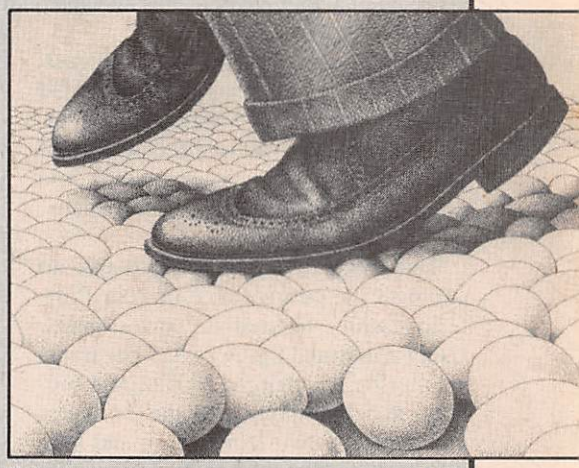

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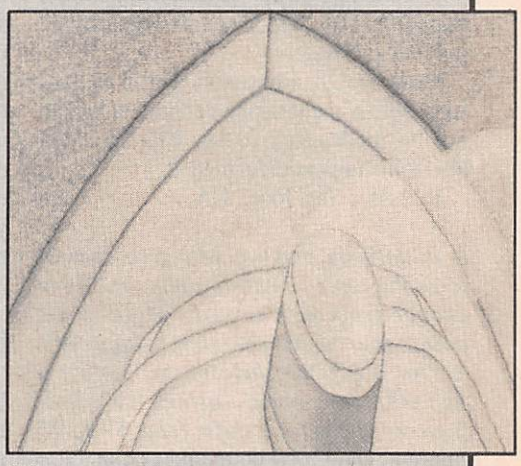

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COVER PHOTOGRAPH BY JEFF SCHEWE

Letters

Portfolio Problem

I don't like the way you buy and sell stock (MONEY MAKER Portfolio, August/September, 1986). You bought Shaer Shoes for 14⅛ and sold it for 14¼. Thus, you made an eighth of a dollar on this stock.

If I bought it, I would have paid $45 to buy and $45 to sell. You make $12.50 on 100 shares, but I lose $77.50. Please tell me where I can buy stock without paying a commission.

K.W., Marienville, PA

In our Portfolio review, we note that commissions are not included in the calculations, which will alter the total return figures we print. We're concerned with overall Portfolio performance, though—commissions hurt a situation like Shaer Shoes, but not transactions like Raychem, where the gain, before commissions, was over 79 percent.

Review Redux

Regarding your claim in the August/September, 1986 issue that the MM Portfolio showed a 55 percent profit, although you point out that this was computed without taking commissions into account, I think it would be more realistic to include them.

That way, it would be possible to compare the performance of your Portfolio with alternative investments. Using a minimal figure of $35 per transaction (the fee charged by discount brokers) and multiplying by the 34 issues and again by two (for buying and selling) gives a total of $2380. Subtracting this from the $5567 profit leaves a net gain of $3187, which is still a healthy 32 percent increase.

However, if compared with a mutual fund which went up 40 percent, it would not be misleading to say that the MM Portfolio underperformed it.

R.A.B., San Jose, CA

It is unlikely that we will ever outperform the top 30 mutual funds, but these change from year to year. More to the point, your yield reduction is appropriate for a $10,000 investment, but for a $25,000 investment—using the same figures—the return shifts from 57 to 47 percent; for $50,000, it shifts from 57 to 52 percent; and for a $100,000 investment, the change is negligible, from 58 to about 56 percent. Since we do not know how much money any individual is investing in the Portfolio selections, including commissions is sure to skew the return figures for some investors.

Advertisements: For . . .

I noticed that you included advertisements for the first time in the October/November, 1986 issue of MONEY MAKER. I'm surprised you hadn't before—MM seems a natural for financial advertising. I assume that most of your readers, like me, have no objection to the change. Anything that keeps subscription rates down is welcome, as far as I'm concerned.

L.C.Y., Flint, MI

. . . and Against

What a shock to see the October/November issue—*advertisements!* So even MONEY MAKER has sold out. Please cancel my subscription at once. Too bad—MONEY MAKER *was* the finest financial magazine around.

F.W.S., Olympia, WA

We have received numerous letters regarding our test inclusion of advertising in the October/November, 1986 issue. Essentially, the "for" correspondent above is correct—our choice is to accept ads or raise subscription rates.

German Missed

It was with great sadness that I noted your obituary for Donald German in the October/November, 1986 issue (page 4). My first introduction to Mr. German was through a cook book, of all things—he put together a good one some years ago. So when I started receiving MONEY MAKER, I was intrigued to see that he also wrote on financial topics. For three years, I have read every article he produced for your magazine—each was, as you said in your notice, definitely written with my needs in mind.

D.M.J., Augusta, GA

Landscape Profits

Your article, "Planting Profits in Landscape Rehab" (October/November, 1986), was right on the money. In fact, your projections for return seemed even a little conservative, to me.

I retired last winter, and before moving from Minnesota to Florida, I put my home on the market last spring. In two months, the best bid I received was $5000 below what I was willing to accept. Rather than give up, I moved one bush and spent precisely $82.63 on annual flowers. In July, I received my asking price for the house—and I was prepared to accept $3000 *less!*

L.B.K., Orlando, FL

Stock Excitement

I have been in past years a MONEY MAKER subscriber. Your August/September, 1986 issue has caused excitement for me with your addition of A.L. Williams stock to the MM Portfolio. The description was very good. As an RVP in A.L. Williams, I have seen excellent stock growth and even better client reception of the products, making for a great future.

Because of this A.L. Williams addition, I'm now again a subscriber! I'll be watching for your future comments.

J.J.E., Palm Beach Gardens, FL

A.L. Williams was a strong recommendation. However, it dropped below our designated stop and has been removed from the Portfolio.

Broker's Fault?

I note in recent MONEY MAKER articles, such as "Choosing (And Using) the Right Stockbroker" in the October/November, 1986 issue, that you are taking the broker's side more and more frequently. Why is this? Brokers make money from investors, whether we win or lose. *They're* the ones who should be working hardest to maintain good relationships with *us*.

H.J., Little Rock, AR

Tax Change Trauma

I read your October/November, 1986 cover story ("How to Profit from Tax Reform") three times, but I'm still not reassured. Even though my tax rate is dropping from 33 to 28 percent, it seems that my lost deductions could hurt me in the future. For one thing, the loss of my IRA deduction will have an immediate impact. And I am at an age where increasing medical bills are entirely possible. Since I fervently hope any medical problems will not be so severe that I cross the new, higher limit with my

medical bills, I think I will lose on the change. In recent years, my husband and I have regularly deducted some medical expenses, and now, even though we can expect our medical costs to rise, we won't get any relief.

Finally, both my husband and myself work, and our "marriage penalty" deduction routinely amounted to about four percent of our gross income—above the two percent threshhold you mentioned in the article.

W.K.P., Gunnison, CO

Funds, IRAs, Confusion?

This is funny. I sat down to write you about two specialized mutual funds *before* I finished reading all of the October/November, 1986 issue of MONEY MAKER. Had I read on to page 50, one of my questions would have been answered—on mutual funds that invest in initial public offerings (IPOs). That's timely!

But I still have a question as to whether there are mutual funds that specialize in investing in companies that are reorganizing under Chapter 11. (Get a few "Chryslers" in their portfolios, and they could be real winners.)

I also have a comment on IRAs after reading "Your IRA" in the same issue. It was indeed interesting to see that only 14 percent of eligible Americans have opened IRAs. In talking with some of my friends who have not opened one, I am finding a common misconception that $2000 was the *minimum* investment, as well as the maximum. Too many advertisements have stressed the $2000 figure, and I believe this has led to the confusion.

I have one question about IRAs myself. If a person opens an IRA at a brokerage, for example, does this mean that no other sources or institutions can be used for another account?

D.L., Coppell, TX

Various funds will invest in some companies that are reorganizing under Chapter 11, but none specialize in that area. Ordinarily, companies that are protected under Chapter 11 take a long, long time to recover. In answer to your question about IRAs, you may open as many different accounts as you wish, as long as your total yearly investment does not exceed $2000.

Farm Favor

I take violent exception to your correspondent's view, labeled "Rural Life" in the October/November, 1986 issue (Letters). Investors take opportunities where they find them, and buying deeply discounted rural property, as you recommended in the August/September issue ("Undervalued Rural Property"), is not, as D.C.B. of Fargo, ND says, the act of a "vulture." Nor is it insensitive to look for such investments, regardless of the factors which have forced so many farmers to sell. Any business—and a farm is a business—which overloads up on debt collateralized by overvalued properties will find itself in danger. When there is real value in the business, and the owner can't meet the debt obligations he presumably accepted with his eyes open, the business will end up for sale. Such seems to be the case with farms. If an investor sees value in farmland and has the means to purchase it, I don't see how that is "heartless behavior," as your correspondent claims.

Remove the emotion from the investment, and then decide whether or not you want to make it.

P.K.P., Bloomington, IN

MONEY MAKER welcomes comments from readers. Correspondence should be addressed, Letters, MONEY MAKER, 5705 N. Lincoln Ave., Chicago, IL 60659.

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(Signed) Arthur Weber
Publisher

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Money Maker Portfolio

The MONEY MAKER Portfolio represents a model of a well-balanced investment strategy. Because it is a model, the positions are listed as percentages of a whole. Regardless of gains or losses, when a position is closed, the same percentage of the Portfolio will be reinvested, since the total investment must always be 100 percent.

This Portfolio is an extension of our philosophy that in order to survive the economic uncertainties of today's world, you must constantly re-evaluate, make your decisions, and ACT upon them. Accordingly, the MONEY MAKER Portfolio is designed to provide the reader with the final product of a professional trader's decisions. It is the end result of his analysis and a concrete example of profit and loss ratios that go into making an investment. It also illustrates how anyone can determine when to take profits and how to take losses.

And it can provide a continuing record of how today's actions perform within the context of a changing economic environment.

CURRENT MONEY MAKER PORTFOLIO: DECEMBER/JANUARY, 1987

Portfolio Category	Name (Symbol)	Exchange	Percentage of Portfolio	Date of Purchase	Purchase Price	10/27/86 Price	Stop	Objective
Common Stocks	Pullman-Peabody (PMN)	NYSE	7%	6/25/85	6⅝	7⅞	7	14
	Flowers Industries (FLO)	NYSE	3%	10/29/85	19¾*	25⅝	23¾	30
	Sanmark-Stardust (SMK)	Amex	6%	12/27/85	4⅞	4⅞	4¼	12
	Johnston Industries (JII)	Amex	9%	2/26/86	12½	15⅜	13½	23
	Lindberg (LIND)	OTC	3%	8/27/86	8	7⅜	6	14
	Andal (ADL)	Amex	3%	8/27/86	13½	13⅛	10	23
	AL Labs (BMD)	Amex	2%	8/27/86	15	13⅛	12	24
	• Harnischfeger (HPH)	NYSE	7%	10/27/86	17¾	17¾	13⅞	24
	• Dravo (DRV)	NYSE	8%	10/27/86	18⅞	18⅞	15¾	28
	• Barry (R.G.) Ohio (RGB)	Amex	7%	10/27/86	8⅛	8⅛	5¾	14
	• Presidential Realty "B" (PDLB)	Amex	7%	10/27/86	13	13	11⅛	19
	• Viking Freight (VIKG)	OTC	7%	10/27/86	21¼	21¼	17	30
Short Sales	Tejon Ranch (TRC)	Amex	3%	8/27/86	48⅞	44⅛	57	36
	• Tecumseh Product (TECU)	OTC	1%	8/27/86	118	119	128	98
	• Dean Foods (DG)	NYSE	9%	10/27/86	28¼	28¼	33	20
	• Consolidated Papers (CPER)	OTC	9%	10/27/86	50	50	59	34
	• Baker, Fentress (BKFR)	OTC	9%	10/27/86	44¾	44¾	50½	32

**Price adjusted to reflect receipt of dividend.*
• Appropriate for new investments.

Last issue, we stressed the danger of a severe correction—some would call it a bear market—in stocks. Shortly thereafter, the Dow Jones Industrial Average dropped 120 points in only two days! Since then, while the Dow is still some 100 points below its high near 1920, the market has consolidated and has been inching up.

The question now is, was the correction enough to correct the excesses that had built up in the stock market? As you might expect, the answer isn't totally clear. There is evidence supporting both bullish and bearish views. We are still more bearish than bullish for the next few months. But remember, the market is not a monolith. At any given time—especially when future events are in dispute—there are stocks which will go up while others are destined for retreat. This is very much the case right now.

On the upside, the market itself failed to follow up on the massive two-day decline. Since that crash, the Dow Jones Transport average has shown unusual strength, even hitting new highs. The correlation between the Industrials and the Transports is spotty, but it shouldn't be ignored. Margin debt on the NYSE continues to rise, which has been a very bullish indicator in the past. But it is unclear how distorted this index may now be by arbitrage and program trading. And finally, several of our technical indicators—most notably our proprietary Trinity Index—have either improved from their lows or, in the case of Trinity, are outright bullish. That is the basic case for a bullish outlook. It's a strong argument, in many ways, but far from conclusive.

Against this scenario we have much bearish evidence. First is simply the age of the current bull market—it is now as old as the end-date of every bull market since World War II. In fact, over the last 50 years, only one bull market has lived longer than 4.5 years. Also over the last 50 years, the sixth or seventh year of each decade has seen the beginning of a bear market—without exception. While the major averages, such as the DJIA and the S&P 500, have avoided serious collapse, the broader market measures—the NYSE Advance-Decline Line, the Amex Market Value Index, and the NASDAQ Market Average—have all been in clearly defined bear markets since earlier in 1986.

More importantly, each new rise in the DJIA or S&P saw a more selective advance—fewer and fewer stocks made

new highs on each move up.

Finally, the Utilities Average has been sick. Utilities are very interest rate-sensitive and have been an excellent leading indicator for the Industrials. Right now, the Utilities Average is predicting further weakness in the market as a whole.

Even though we believe the long-term bull market still has a last hurrah forthcoming, we don't expect it to occur until the current correction has eaten another 200 points or more on the downside, and this will probably not finish for another six months.

In the meantime, it's a split market. That means money can be made in both directions, though, if the right stocks are selected.

Common Stocks

The extremely choppy action we've seen in the stock market over the past two months has caused some turmoil in the Portfolio. Two of our stocks hit their objectives. American Bakeries was sold at 32, for a gain of 11⅜. The company was the object of a takeover attempt and is currently trading around 44, and if you haven't already sold, do so now—there isn't much room left on the upside. Color Tile also hit its objective of 30 and was sold for a 50 percent gain. So much for the clear good news.

Seven other selections hit their stops. This makes sense, since in light of our bearish projections, we drew the stops nearer to current prices. Crest Foam shows a minimal gain; Shaklee was stopped for a nice gain of $4.50 per share; Control Laser suffered a $3 loss; A.L. Williams lost $3.50; Japan Fund dropped $2.13; and Chicago Rivet & Machine was stopped out unchanged. In addition, we are recommending the sale of Durham Corp. for a $1 gain per share. It just isn't acting as well as we would like, so sell it now.

Finally, Camco hits its stop late in October, creating a loss of $4 per share. Obviously, the last two months have not been tranquil. In total, 63 percent of the Portfolio is open for reinvestment.

New Purchases

Our first new long selection is Harnischfeger, a manufacturer of power cranes and shovels, truck, crawler, and traveling cranes, hydraulic cranes and excavators, electric mining extractors, and electric wire hoists. Fiscal 1985 earnings were reported at 30 cents. For fiscal 1986, earnings should show a 30 percent gain, and we expect a much larger gain in 1987—perhaps to as much as $2.15 per share. In addition, we were originally attracted to this NYSE issue because of its very bullish chart pattern, which shows an upside breakout on big volume with a rising relative strength line. The chart projects a minimum move to our objective.

We are also recommending Dravo on the NYSE, Barry, R.G., Ohio and Presidential Realty "B" on Amex, and Viking Freight, which is traded over-the-counter. All show both solid fundamentals and very intriguing chart patterns, and each has been either overlooked or has worked down into an undervalued position.

Place seven percent of the Portfolio in each of the new recommendations, with the exception of Dravo, which receives an eight percent Portfolio commitment. As always, for these and our current holdings, be sure to keep your stops in place.

Short Sales

In keeping with our bearish feelings, we are adding three new short positions this issue. Give each of the new short sales a nine percent Portfolio commitment. First is Dean Foods, traded on the NYSE. The other two short positions are OTC stocks: Consolidated Papers and Baker, Fentress. All three issues look ready to take an intermediate tumble, and could deliver some sharp profits over the near term.

Remember, though, that short selling isn't for everyone. Short sellers face margin calls, and they must make good any dividends that are declared while they have sold borrowed stock. If the increased risks of short selling turn you off, there is no harm in holding cash for future buying opportunities. Just be sure to keep your assets liquid. However, the Portfolio will reflect the profits or losses of the recommended short sales. □

PORTFOLIO CHANGES THIS ISSUE

Sold

American Bakeries stock—originally purchased at 20⅝ and sold at its objective of 32, for a $11.37 gain per share.

Crest Foam stock—originally purchased at 12⅜ and sold at its stop of 12½, essentially unchanged.

Color Tile stock—originally purchased at 20 and sold at its objective of 30, for a $10 gain per share.

Shaklee stock—originally purchased at an adjusted price of 18½ and sold at its stop of 23, for a $4.50 gain per share.

Control Laser stock—originally purchased at 10¼ and sold at its stop of 7¼, for a $3 loss per share.

Durham Corp. stock—originally purchased at 42½ and sold for 43½, for a $1 gain per share.

Chicago Rivet & Machine stock—originally purchased at an adjusted price of 21⅛ and sold at its stop of 21⅛, unchanged.

A.L. Williams stock—originally purchased at 24½ and sold at its stop of 21, for a $3.50 loss per share.

Japan Fund shares—originally purchased at 17⅞ and sold at its stop of 15¾, for a $2.13 loss per share.

Camco stock—originally purchased at 18 and sold at its stop of 14, for a loss of $4 per share.

New Purchases

Harnischfeger stock—bought at 17¾ with an objective of 24.

Dravo stock—bought at 18⅞ with an objective of 28.

Barry (R.G.) stock—bought at 8⅛ with an objective of 15.

Presidential Realty "B" stock—bought at 13 with an objective of 19.

Viking Freight stock—bought at 21¼ with an objective of 30.

Short Sales

Dean Foods stock—sold short at 28¼ with an objective of 20.

Consolidated Papers stock—sold short at 50 with an objective of 34.

Baker, Fentress stock—sold short at 44¾ with an objective of 32.

Money Strategies

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It's now possible to find out the latest information about companies whose shares you own—including timely announcements regarding mergers and acquisitions, new products or services, quarterly earnings, new issues, stock splits, and so forth—simply by dialing your telephone.

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To find out if an upcoming presentation interests you, just consult NYSSA directly at 212/344-8450. Or pick up a copy of *Investor's Daily, Barron's, Investment Dealer's Digest,* or *Pensions & Investment Age*. NYSSA's meeting calendar appears in each of these publications. To make a reservation to listen to a presentation, call 800/835-9700.

Video and audiotapes of the presentations are also available for $50 and $15, respectively. Write to NYSSA at 71 Broadway, New York, NY 10006.

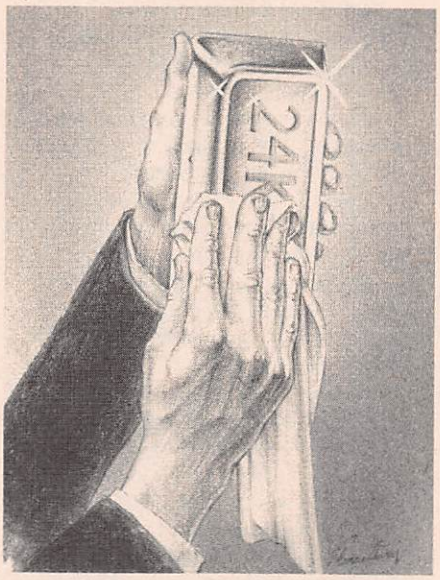
Low Rates Make a Comeback

Low rates are back, but are they here to stay? Homeowners across the country are trying to decide when to refinance old mortgages or take out second mortgages—trying to turn family homes into working assets.

Understanding the facts, figures, and techniques of refinancing will help homeowners make one of the most important credit decisions they are faced with today. There are many ways to refinance the mortgage on a home. To find the best possible way, homeowners will need to decide what their goal is—reduced monthly payments, ready cash, or better terms.

Once your goal is established, you'll find that the many borrowing avenues—bankers, mortgage bankers, mortgage brokers, lending or loan companies—all have mortgage products available at competitive rates and terms.

"A Homeowners Guide to Successful Refinancing," published by Beneficial Mortgage Corporation, is a 14-page booklet that is designed to help you set goals and make informed refinancing decisions both easily and effectively. The guide is available free at your local Beneficial consumer finance office, or write to Beneficial Mortgage Corporation, Department R, 1300 Market St., Wilmington, DE 19801.



Polishing Up on Gold

Although many investments have outshined gold, investor interest in this precious metal rarely dulls. In fact, in recent months, many investors have shown a renewed interest in gold, which again rose above $400 an ounce in September, 1986.

If you're just beginning to think about investing in gold and want to learn more, a new consumer-oriented 16-page booklet called "Your Introduction to Investing in Gold" can help. Published by The Gold Institute, the booklet reviews why millions of people have invested in gold, who needs gold, and who decides the price of gold. The publication also describes an array of gold investment opportunities and provides comparative data on the advantages and disadvantages of each vehicle.

"Your Introduction to Investing in Gold" is available for $2. Checks should be made payable to The Gold Institute, 1026 Sixteenth St., N.W., Suite 101, Washington, DC 20036.

The Best of Both Worlds

For the most part, investors generally fall into one of two categories—they are either conservative or aggressive. As such, their investment objectives will differ. The conservative investor may put safety ahead of speculation and thus be unwilling to risk his or her investment principal. On the other hand, the aggressive investor may seek significant growth potential and thus be willing to accept more risk. Here is an investment product that enables investors to be both conservative *and* aggressive.

The "Kemper Double Play Trust" offers investors a high degree of security as well as the opportunity for unlimited capital growth. How does it work?

When an investor buys a unit of the Double Play Trust, part of his or her money is invested in zero coupon U.S. Treasury obligations, while the remainder of his or her principal is invested in shares of the Kemper Summit Fund, an aggressive equity mutual fund.

"We think the Kemper Double Play Trust offers investors the best of both worlds," says Robert Butler, senior vice president of Kemper Financial Services, Inc., and manager of the Kemper Unit Investment Trust Department. "The zero coupon portfolio of the Trust provides the investor who holds his or her units to maturity with the kind of protection available only from a U.S.-government-backed investment, while the Kemper Summit Fund is a mutual fund with an outstanding long-term performance record. Of course, the value of the units will fluctuate during the life of the Trust and could even, prior to maturity of the zero coupon obligations, be less than an investor's cost, but even if the value of the portfolio's fund shares were to drop to zero, an investor's initial investment is protected if he or she holds units to maturity of the Trust."

For more information or to obtain a copy of the prospectus, write to Kemper Financial Services, Inc., 120 S. LaSalle St., Chicago, IL 60603.

Buried Fees Unearthed

If you're a mutual fund investor, you should be aware of a trend currently spreading among funds—one that eventually could harm a fund's return.

This trend involves "unseen" fees, and one of the most overlooked of all sales charges or loads is the 12b-1 fee, according to the editors of *Donoghue's MONEYLETTER*, a twice-monthly in-

vestment advisory newsletter which tracks mutual funds.

In a free special report, "Avoiding 'Hidden' Mutual Fund Fees," the newsletter's editors explore the pitfalls of 12b-1 plans and five other mutual fund fee structures.

The 12b-1 fee, named after a Securities and Exchange Commission ruling, is taken out of total fund assets (a fund's management fee is deducted in the same manner). All funds have a management fee, generally under one percent annually. The 12b-1 fee is an annual charge levied *in addition* to the usual management fee.

Today, many 12b-1 fees have risen to the one percent mark. That means, with management and 12b-1 fees combined, as much as two percent of fund assets are going to management each year and not to investors.

Proceeds of 12b-1 plans are used to cover a fund's advertising and distribution expenses. The SEC's initial intent was to allow smaller funds to compete with the fund giants, but funds have long since stretched the rule. Specifically, some funds are using 12b-1 plans to pay off hefty brokerage costs from prior years. New investors are paying for costs incurred before they even got into the fund, in some cases. Furthermore, it's questionable whether some funds really need 12b-1 fees.

Funds with 12b-1 fees are still allowed to call themselves no-load funds, and those funds don't advertise their 12b-1 plans. Here is where a major problem crops up. Most investors do not even know what a 12b-1 is, let alone if they're footing the bill.

William E. Donoghue, *MONEYLETTER'S* publisher advises, "If you're invested in a fund with a 12b-1 plan, watch its yields closely. Returns are quoted after the 12b-1 fee has been deducted. If you're not satisfied with the returns, get out today. Most important, take the time to read your fund's prospectus. All funds are required by law to declare all fees. The information is usually buried, but it's there for you to read under the heading 'distribution,' albeit set in small print and unintelligible language."

Eventually, as 12b-1 fees increase, they could harm mutual fund returns, and you may not know your investment's in danger until it's too late. Some funds impose not only a management fee and a 12b-1 fee, but also a front-end or back-end sales charge of between one and 8.5 percent. These front- and back-end fees are calculated as a percentage of your investment, and they can add up.

If you would like to get a copy of the special report on various mutual fund fees, write to The Donoghue Organization, 360 Woodland St., Box 540, Holliston, MA 01746, or call 800/445-5900 (within Massachusetts call 617/429-5930).

Tax-Free vs. Taxable Bonds

Municipal bonds have usually been thought of as investments for the rich—the interest rate paid on municipal bonds was much lower than on corporate or Treasury bonds. So, munis made economic sense only for people who were in such high income tax brackets that the federal government would claim a substantial chunk of their earnings.

But according to the executive director of the No-Load Mutual Fund Association, the new tax legislation changed all that by substantially reducing income tax brackets.

"The bond market has already adjusted to the proposed 28 percent maximum tax rate," says Laura J. Berger. "As a result, some long-term municipal bonds are yielding more than taxable long-term Treasury issues and nearly the same rate as long-term corporate bonds. In effect, investors are not paying any premium for the tax-exemption."

Because of this disappearing gap between yields on taxable and tax-free bonds, mutual funds that invest in tax-free bonds have become popular alternatives for middle-income people. Investing through mutual funds, according to Berger, also eliminates another barrier that has kept middle-income investors away from municipal bonds: The need to buy individual bonds in units of $5000 or more which has resulted in middle-income investors' inability to acquire a diversified portfolio.

"By pooling the funds of thousands of investors," says Berger, "tax-free bond funds enable the investor with as little as $1000 to earn tax-free income with a broadly diversified, professionally-managed portfolio." □

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By Philip Springer

20 Ways to Maximize your Mutual Fund PROFITS

These are good times for mutual fund investors who have enjoyed extraordinary returns from stock and bond portfolios since August of 1982. But what goes up eventually comes down. The current bull market, which has already entered the record books as one of this century's best, is maturing and becoming more selective. The second half of 1986 saw some inevitable corrections, and expected or not, they were nerve-racking in their speed and severity. Now, even though higher stock prices seem likely as time passes, the best gains are almost certainly history.

And this is particularly important to mutual fund investors. Although mutual funds were once considered "buy-and-hold" investments by many, even the diversification and professional management a fund offers are unlikely to shelter you from the risk of big losses in today's volatile markets. In other words, it's up to you to take steps to protect your mutual fund profits.

Of course, no matter what you do with your money, it's a bad idea to "buy and forget" anything. For a variety of reasons, many investors seem to do just that with their mutual funds, whether they are investing for income, in an Individual Retirement Account, or for current capital gains. Investors tend to believe that the professional management of a fund will provide downside protection. And because buying mutual funds is usually somewhat different than buying individual stocks, for example, too many people treat the investments as if they were savings accounts.

Among the many advantages of mutual funds is the ease with which you can adapt your holdings to changing market conditions and different investment strategies. The flexibility offered by today's mutual fund families is an excellent tool for ordinary investors, and it is definitely underexploited. This is a shame, because most funds make adjusting your investment strategy very easy—they would prefer to keep you invested with them. Ultimately, there is no good reason to get caught in a down cycle—it's really too simple to make some changes to protect your profits.

Nevertheless, you won't be able to eliminate risk entirely unless you decide to quit playing the game. But you can certainly reduce your risk of a significant loss, even while you hold onto the possibility of seeing good returns, should prices once again take off. Here are 20 possibilities:

1. Clarify your investment objectives. This should always be done, whether you're shifting your investments or initiating new purchases, and it is based primarily on how much risk you can and should assume. Risk tolerance is determined by a number of factors, such as your age, family situation, current and expected future income, financial net worth, known and anticipated long-term expenses (such as a mortgage, college education for children, and so on), and temperament. Unless you make a practice of investing only what you can afford to lose—which never applies to IRA investments, for example—your emotions will heavily influence all of your buy-sell decisions. Rather than wait until an immediate decision is required, carefully consider your basic objectives now.

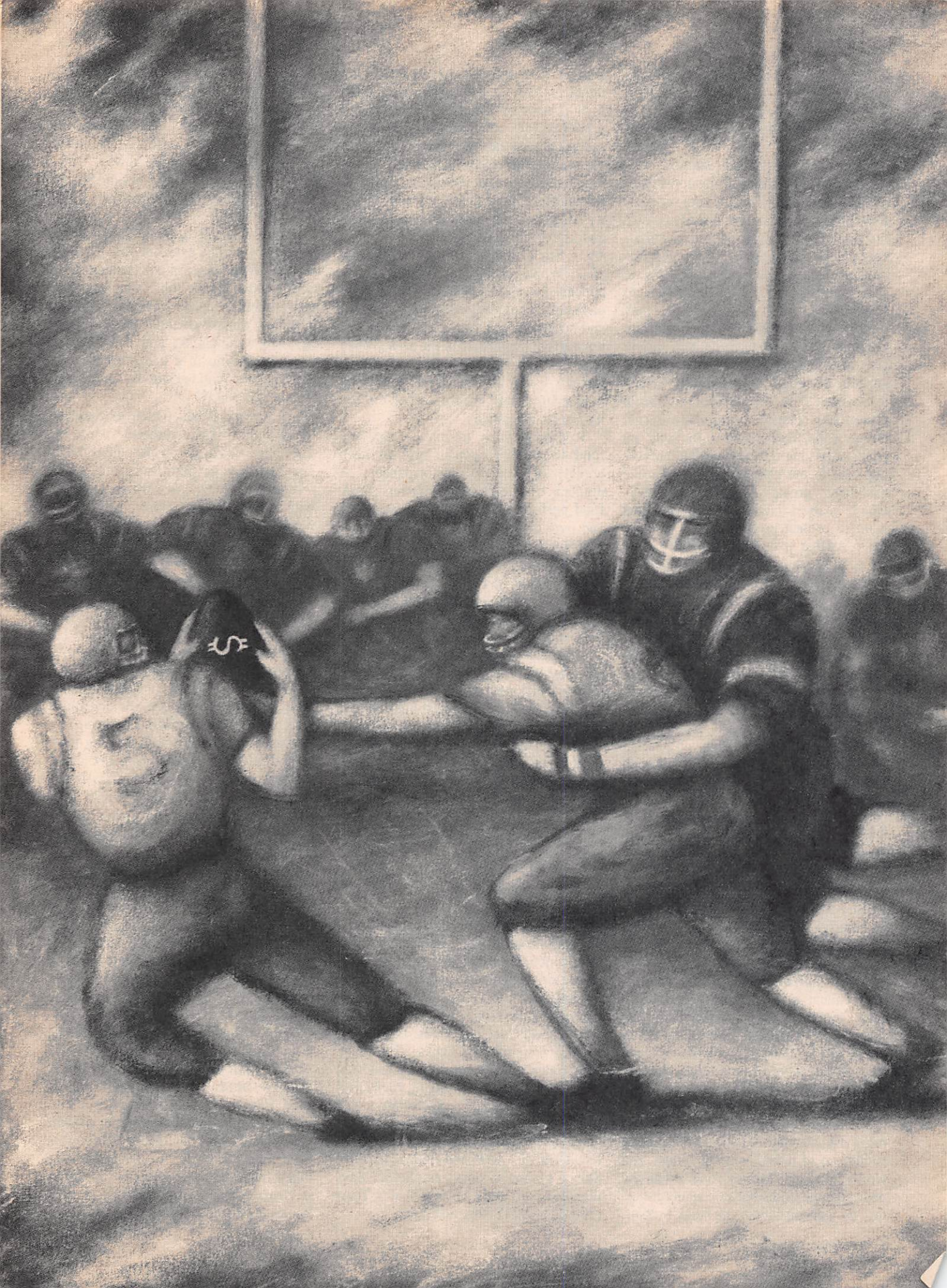
What do you want your mutual fund investments to accomplish? Your goals may fall into one or more of several basic categories, ranging from speculative (meaning you expect high growth and are willing to bear higher risks to achieve it), growth, growth with income, generated income with some growth, current income only, and preservation of capital. Of course, your mutual fund investments do not all have to be oriented toward a single goal—it is the overall mix that matters. If you have enjoyed some good profits in your mutual funds over the past few years, it might be a good time to redefine your objectives. After all, you don't want to give any of those profits back.

2. Follow the markets. Mutual funds enable you to delegate investment decisions to professional managers. But you still need to know what stocks, bonds, interest rates, precious metals, and so on are doing. Why? Because most mutual funds perform only as well as the types of securities they buy. Even the best-managed mutual fund that concentrates on small company growth stocks or gold shares, for example, will probably be hammered by sharp declines in those specialized areas. As the markets change, shift your mutual fund investments accordingly. This, obviously, means you should be aware of what different fund alternatives are available, either within your fund family or elsewhere.

3. Buy no-load or low-load funds only. One of the best ways to keep the profits you have already realized is to avoid mutual funds with sales charges of up to 8.5 percent when you reinvest. As a group, load funds (meaning those funds which charge commissions on sales) do not outperform no-load funds, so reducing your initial investment with a hefty commission will have an impact on your profits as the years go by.

4. Build your mutual fund portfolio around a few core holdings.

ILLUSTRATION BY WARREN GEBERT



Regardless of your investment goals and strategies, allocate a good percentage of your assets among a few funds that you can comfortably hold throughout bull or bear markets.

There's no guaranteed method for selecting a fund that will perform well over the long haul. But relying on portfolio managers who have already proven themselves in both good and bad markets is a sound approach. Although this will prejudice your decisions toward older funds—which may be unfair to some newer fund managers who may prove to be very good—when you are attempting to protect profits, you should go with the long-term track records. A handful of funds have regularly beaten the market over the last decade, while minimizing losses during downturns. None of the funds listed in the table on page 13 has endured more than one losing year in the past 10, and no decline has been greater than 10 percent—which is the kind of performance you want to protect profits.

5. Adjust your fund portfolio mix. This is a cautious form of market-timing. If you've diversified yourself among several different funds with various objectives, consider reducing your exposure in the riskier ones—aggressive growth funds, for example—and increasing your holdings in such categories as growth/income, bond funds, and money market funds. A typical middle-of-the-road mix might include 10 percent in aggressive funds, 25 percent in growth funds, 20 percent in growth plus income, 25 percent in bond funds, and 20 percent in money funds.

6. Shift your holdings from stock funds into bond or other income funds. This is obviously conditional, because you would be shifting all of your cash out of equities. In other words, it's a big bet on market-timing. If equities take off, you'll miss some profits. But shifting money into bond funds, if you want to take a conservative approach, offers three potential benefits: You collect a good income if interest rates remain stable; you will realize good capital gains if interest rates decline; and any losses you would experience in the event of an interest rate rise would probably be less than the losses for stock funds.

However, if you fear that interest rates will rebound, much of your money should go to money market funds. You won't be alone: Money fund assets are near all-time highs because many investors are nervous about the stock market, believe that interest rates won't fall much further, or are currently satisfied with returns of about six percent in a period of low inflation. Of course, you can get greater safety and approximately the same return from bank investments, but a money fund within a family of funds offers more flexibility and liquidity if you want to shift your assets quickly again in the future.

7. Stick with top performers. Whatever mutual fund category appeals to you—speculative, growth-oriented, income-oriented, specialized, and so on—place your money with the top current performer in the area. When the fund slips in the standings, switch to the new leader. For example, you might hold a fund until it falls out of the top five in its category.

To know when to move from one fund to another, you'll have to keep abreast of relative performances. A number of monthly newsletters track fund performance in various categories and over different time periods; two are ***NoLoad Fund *X* (235 Montgomery St., San Francisco, CA 94104) and *Switch Fund Advisory* (8943 Shady Grove Ct., Gaithersburg, MD 20877).

8. Examine funds investing in laggard areas. This is basically contrarian strategy—try for funds which are concentrating on out-of-favor stock groups. Sector funds investing in certain areas have already suffered big declines in recent years, despite the bull market. But they may do well in the next market cycle. Trailing areas have included oil producers, oil services, high tech, electronics, metals, and air transportation. Small-company funds have also underperformed the market. However, since there is no guarantee that a former laggard will move to the front, make sure such investments are a small portion of your portfolio.

9. Look into funds that concentrate on lower-risk stocks. Such issues include utilities;many blue chips, whose prices are supported in large part by predictable dividends and earnings; companies that provide essential consumer goods, such as foods, beverages, soaps, and drugs; banks, insurance companies, and some savings & loans; and a range of stocks paying high dividends. A number of sector funds invest in utilities, banks and S&Ls, or insurers. Some examples include Fidelity Select Utilities (800/ 544-6666), Fidelity Select Financial Services, Select Savings & Loan, and Century Shares Trust (800/321-1928) for insurance.

10. Consider funds which employ low-risk *strategies*. Several funds reduce risk not by investing in low-risk areas, but by investing according to strict "value" criteria. Examples of such funds are Legg Mason Value Trust (800/822-5544), Mutual Shares (800/344-4515), and Nicholas Fund (414/272-6133).

Funds that sell options against their holdings generate extra income that can largely offset losses in a market decline. On the other hand, funds that sell covered options underperform the averages in bullish market periods. But the strategy can reduce risk, and it will offer some protection in a bad market. One such no-load fund is Gateway Option Income (800/354-6339).

11. Buy funds which are potential tax reform winners. There are two ways to play this game. The first is to get into funds that invest primarily in companies whose tax bills will fall because of lower rates. Clear winners are consumer-oriented businesses such as retailing, media, advertising, foods, and household products. Funds that invest in these areas include T. Rowe Price New American Fund (800/544-5660), Vanguard Service Economy (800/662-7447), and the Fidelity sector funds for leisure, retailing, media, and food (800/638-6666).

The second approach is to increase your holdings of bond funds and those which buy high-dividend stocks. By knocking out the tax break for long-term capital gains while lowering tax rates, the new law will boost the real aftertax return from dividends and interest. So it will make more sense to grab a steady income stream than to seek potentially larger but uncertain gains.

12. Buy deeply discounted closed-end funds. Buying into diversified portfolios at historically deep discounts reduces the risk that the publicly traded fund shares will suffer steep declines. If the market heads up, the current double-digit discounts are likely to shrink, thereby further boosting your gains. (See "Mutual Funds at a Discount" in the October/November, 1986 issue for further information).

13. Put some cash into an index fund. The average mutual fund investing in stocks has failed to match the broad market averages in each year since 1982. Institutional investors have long put some of their assets into index funds because of the belief that it is virtually impossible for large portfolios to consistently beat the market, and

PROTECTING YOUR PROFITS: FUNDS FOR THE LONG HAUL

The funds below have regularly beaten the market over the last 10 years while minimizing losses during down cycles. None has had more than one down year in the past decade, and no decline has been greater than 10 percent. The first nine are stock funds; the bottom five are income funds.

Fund (phone number)	Sales Charge	Gains	
		10 Years	5 Years
Evergreen Fund (800/635-0003)	none	997%	149%
Fidelity Equity-Income (800/544-6666)	2%	599%	179%
Fidelity Magellan (800/544-6666)	3%	1702%	275%
Fidelity Puritan (800/544-6666)	none	379%	166%
Janus Fund (800/525-3713)	none	563%	132%
Nicholas Fund (414/272-6133)	none	778%	159%
Partners Fund (800/367-0770)	none	579%	160%
Tudor Fund (800/223-3332)	none	616%	177%
20th Century Select (816/531-5575)	none	1101%	172%
Federated Stock & Bond (800/245-5000)	none	270%	144%
Safeco Income (800/426-6730)	none	387%	163%
Stratton Monthly Dividend (215/542-8025)	none	276%	162%
Wellesley Income (800/662-7447)	none	279%	151%
Wellington Fund (800/662-7447)	none	291%	156%

index funds automatically match it.

The Vanguard Index Trust (800/662-7447) invests its assets to mirror the Standard & Poor's 500. As an index fund, it is always fully invested and isn't concerned with stock selection. Since the large companies comprising the index should continue to do relatively well in a disinflationary environment—they often have a franchise in their markets and can generate comparatively predictable earnings.

14. Invest internationally. For almost two years, funds that invest outside the U.S. have generally outperformed those in U.S. stocks. Even though the recent spectacular gains are unsustainable, many professionals still believe that foreign investments have plenty of long-term potential, especially foreign bonds.

Some of the gains for U.S. investors stemmed from the collapse of the dollar, which has increased the value of foreign investments. But the pluses for foreign investment still include expectations for generally faster economic growth overseas. By investing in international funds, you can diversify into several markets, thus decreasing your risks.

Top performers among established international funds are Fidelity Overseas (800/544-6666), Transatlantic Fund (800/233-9164), T. Rowe Price International (800/638-5660), Scudder International (800/225-2470), and G.T. Pacific Growth (800/824-1580). In addition, there are many others, some highly specialized, others balanced worldwide.

15. Consider placing some cash in gold funds. This can be a good way to conserve capital, if only because gold has long offered a refuge for investors who are bearish about stocks, bonds, and inflation. But gold has recently benefited from an unusually large number of bullish developments, including a drop in stock prices, concerns about the stability of South Africa, fears about a resurgence of inflation, and the decline in the dollar, which lowered the gold price for foreign buyers. Some of the many fund alternatives in this volatile sector are Lexington Goldfund (800/526-0057), Bull & Bear Golconda (800/847-4200), Vanguard Special Gold (800/662-7447), and United Services Gold (800/824-4653).

16. Keep your sector fund bets small. Specialty funds offer several possible ways to protect your profits in uncertain markets, but the trick is to use them selectively and *sparingly*. For one thing, their focus is usually quite narrow, and that can result in above-average volatility—even, on occasion, in less risky market sectors. Second, if a sector play doesn't pan out—and there are never any guarantees—you will lose more than you would in a diversified fund. Third, while a single group may outperform the Dow Jones Industrial Average for a period of time, it won't last more than a few months. In other words, use small amounts in sector funds, watch your positions carefully, and move around whenever events dictate a change.

17. Take some profits now, in 1986. Regardless of whatever other moves you make, you should probably nail down big long-term gains this year. For most investors, the tax rates on such value appreciation will double next year. For example, a couple with $35,000 in taxable income will be in the 28 percent tax bracket in both 1986 and 1987. But on a $5000 capital gain, they would pay $560 in taxes this year, as opposed to $1400 next year.

18. Adhere to mental stop/loss levels. You can limit potential losses and protect your current profits by fixing a specific price at which you will sell your fund shares if they decline. Depending on your fund's volatility, set the stop/loss level between five and 10 percent below the current price—if it drops that far, get out, and don't look back.

19. Keep moving averages. These are useful for determining your funds's price trend. A sell signal occurs when your fund's net asset value (NAV) falls below its moving average and the moving average is starting to trend downward.

To calculate a moving average, start by averaging the fund's weekly closing price for a specific number of weeks (for example, 30). As each new week passes, drop the oldest week from the average calculation. The average will then be moving up or down

20. Do some dollar-cost-averaging. Buy or sell the same dollar amount of a fund's shares at regular intervals. Since it is impossible (without a lot of luck) to get in or out at the market bottom or top, dollar-cost-averaging eliminates the risk that you will sell at the lowest price or buy at the highest.

Obviously, you can't follow every one of the 20 preceding protective strategies for your mutual fund portfolio. But you can certainly use a number of them. And you should. A mutual fund is not a savings account—you can't buy it and forget it, hoping nothing will drive the price down. Now that the stock market is no longer steaming relentlessly ahead, it's time to start protecting the profits that have happily been accumulating over the past four years. After all, making money in a strong bull market isn't the key to long-term investment success—keeping your profits in a bear market is. □

By Philip Springer: *Writer at the Research Institute of America on investments, taxes, and personal finance.*

There's more to investing than just picking stocks – a lot of pieces need to be in place to complete the picture.

Your guide to Successful Investment Planning

You're at the health club. Amid the clanging of locker doors and loud, good-natured kidding, you overhear one particularly well-heeled club member whisper to another, "Buy Quicksand Mining, over-the-counter. It's going through the roof."

You're not one to make rash investment decisions, but these guys have valets packing their Gucci gym bags. What do you do? Well, the best advice may be to take the tip seriously and investigate it, *if* you have already fulfilled an earlier requirement. That is, if you have already taken the time to create a total portfolio plan. Such a plan will not tell you whether or not Quicksand Mining is a good investment, but it will tell you whether or not something as presumedly speculative as Quicksand is an appropriate investment for you.

A total portfolio plan is much more than a method for rationalizing an occasional long shot. It is a comprehensive, flexible tool that should give you the ability to judge every financial decision and need in the context of your own personal goals and resources.

Since no two people are identical, personal becomes a key word. The portfolio plan that works for someone who only sweats at the health club will not work for someone who sweats out a living everyday. Even two people in the same financial class will have widely differing personalities and financial goals. Obviously, the process of developing a total financial plan involves analyzing your current financial status and then identifying your goals.

Take a financial inventory. You can't decide where to go if you don't know where you are. Therefore, a necessary first step in financial planning is taking a financial inventory. Most financial planners furnish clients with a simple self-inventory sheet, but you can create your own by preparing a personal balance sheet. As in the example below, list your assets and liabilities.

Asset/Liability	Plus	Minus
Checking Account	$2,500	—
Savings Account/CDs	10,000	—
Money Market Funds	20,000	—
Stocks	24,000	—
Bonds	36,000	—
Mutual Funds	14,000	—
Limited Partnership	20,000	—
Real Estate	45,000	$31,000
Home	95,000	65,000
IRAs	8,000	—
Retirement Plans	100,000	—
Personal Property	10,000	—
Autos	10,000	5,000
Outstanding Loans	—	10,000
Totals	$394,500	$111,000
NET WORTH	$283,500	

By creating this balance sheet, you have organized your assets and liabilities. Even if your net worth is much humbler than the one given in the example, you still have a clear idea of where you are.

In addition to your current net worth, thousands of more dollars will pass your way during your lifetime. Much, perhaps most, of this money will be needed to live on, but will all of it? Prepare a personal income or cash flow statement like the following:

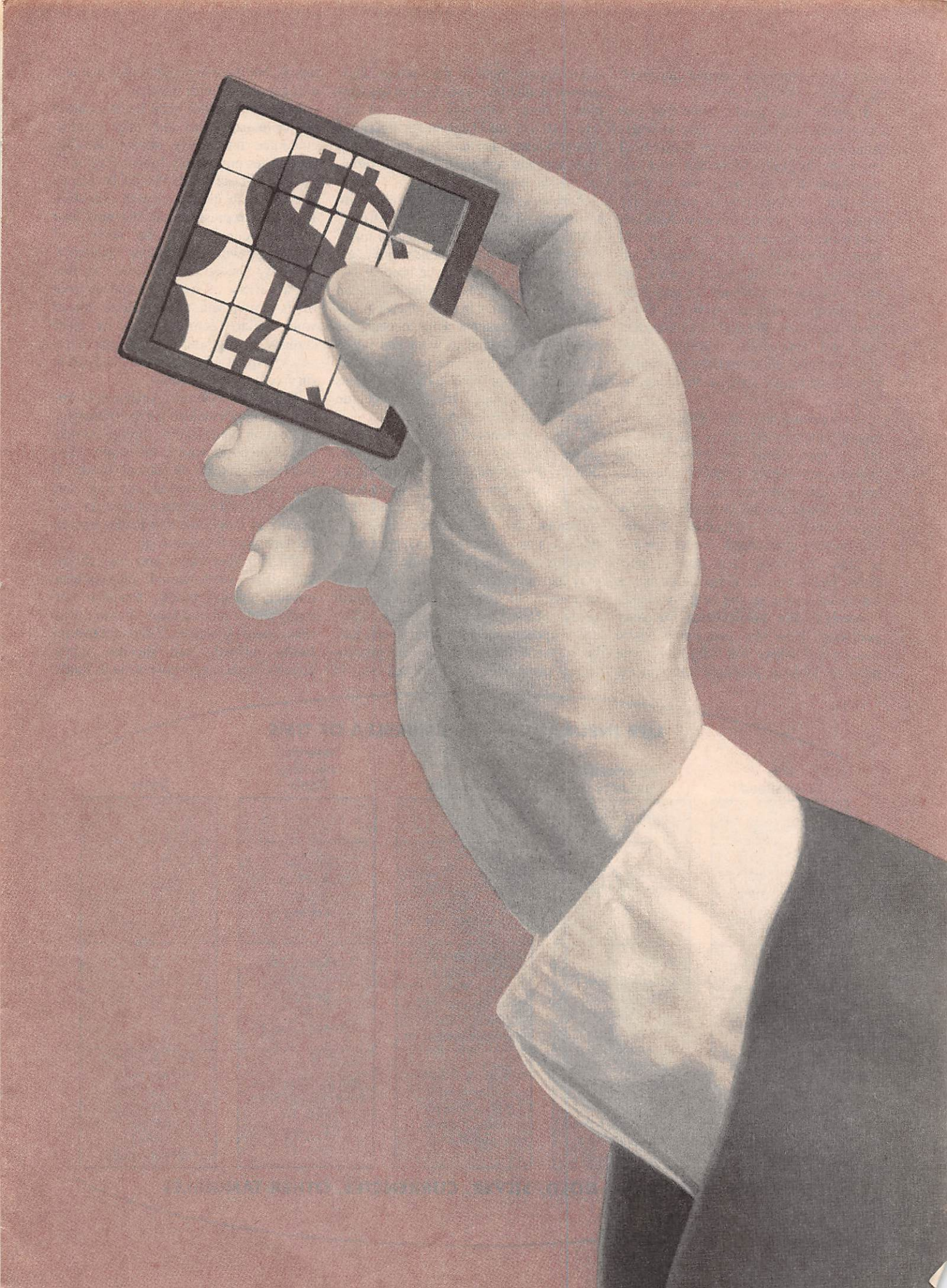
Monthly Income		Monthly Expenses	
Take Home Salary	$3200	Housing	$ 900
		Utilities	200
		Food	260
Investment Income	415	Loans	400
		Insurance	80
		Entertainment	140
		Medical	30
		Household Exp.	120
		Clothing	175
		Gifts	50
		Vacations	150
		Investment Prop.	350
Total income	$3615	Total expenses	$2855

Monthly income available for investment: $760

After subtracting your expenses from your income, you may be surprised by the amount of money you have left for investing. And, if the amount is small, don't be too discouraged. Time, disci-

By Michael Nels Thompson

ILLUSTRATION BY JANE MEREDITH



pline, and compound interest can make the smallest nest egg grow.

Identify your goals. Now that you know where you are, you have to determine where you want to go. Successful investors set goals. More than just setting them, it is advantageous to write them out in a clear, concise manner. By writing them, you are forced to think out your exact financial objectives. You will want to determine your immediate, intermediate, and long-term goals. Too often, immediate goals are the only ones an individual pays attention to. Often these goals are fleeting, inconsequential, and financially draining. Total focus on them eliminates the possibility of reaching longer-term, more meaningful goals.

Goal setting will also allow you to measure the amount of risk you are willing to take. Your shorter-term goal, perhaps, of owning a boat or a summer home, for example, may mean that money might not be available later for your children's education. Is the shorter-term goal worth enough for you to place the longer-term goal in jeopardy? These are the kinds of decisions your goal setting should help you make.

Analyze the possibilities for your portfolio. Now that you know where you are and where you want to go, you need to look at potential investments and compare them to the various alternatives available to you. One of the simplest, most effective ways to do this is to use the Diagram for Financial Independence formulated by Venita VanCaspel in her book *Money Dynamics for the New Economy*.

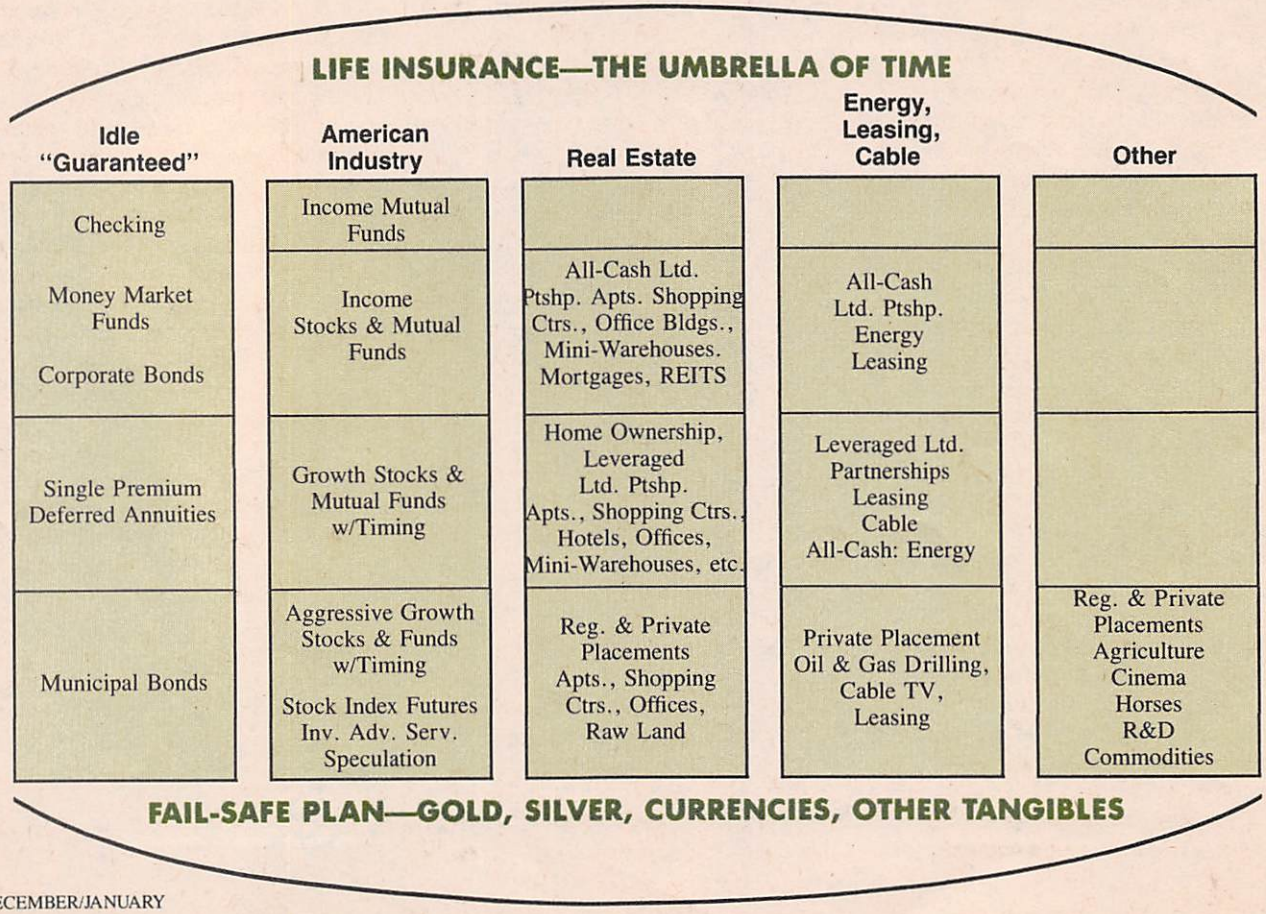
Across the top of the diagram is "Life Insurance—The Umbrella of Time." Although this is an area in which many people are reluctant to spend money, especially money that can be used to satisfy immediate goals, life insurance can buy time. A policy bought when you are thirty can guarantee your dependents now an estate equal to what you might build up by the time you're 65. In other words, some of your long-term goals can be met through life insurance, no matter what happens to you.

Under the umbrella, the first column on the diagram is for idle "guaranteed" dollars. Everybody needs some liquid assets for emergencies, short-term needs, or simple peace of mind. But sometimes that peace of mind is costly. By keeping a high percentage of your assets in fixed-income investments, you may be sacrificing the potential gain necessary to meet your longer-term goals. Money market accounts, CDs, and corporate and municipal bonds may be attractive because of various guarantees of principal at maturity and rates of return, but there is no guarantee that any will keep pace with inflation.

Use the financial vehicles in column one to manage your daily affairs and to guarantee the nearly instant liquidity needed for emergency funds. Capital in excess of these needs should be placed in areas with greater growth potential. The areas represented in the next four columns demonstrate the variety of higher growth investments available. You may choose one area over another for a variety of reasons. And as your funds grow, you may wish to spread your dollars across several of these choices, giving your portfolio the diversity to exploit a boom in one area and to survive a bust in another.

The second column, American Industry, lists opportunities for the ownership of stock in American or foreign companies. Two basic ways to invest are to buy individual stocks or mutual funds. If you have the inclination, the time, and the skill to fully evaluate companies, investing in individual companies may be the best way for you to go.

On the other hand, you may choose to utilize professional management through mutual funds. You can normally find a mutual fund to match your investment objectives. There are income funds, growth and income funds, growth funds, aggressive growth funds,


LIFE INSURANCE—THE UMBRELLA OF TIME
Idle "Guaranteed"
American Industry
Real Estate
Energy, Leasing, Cable
Other
Checking
Money Market Funds
Corporate Bonds
Single Premium Deferred Annuities
Municipal Bonds
Income Mutual Funds
Income Stocks & Mutual Funds
Growth Stocks & Mutual Funds w/Timing
Aggressive Growth Stocks & Funds w/Timing
Stock Index Futures
Inv. Adv. Serv.
Speculation
All-Cash Ltd. Ptshp. Apts. Shopping Ctrs., Office Bldgs., Mini-Warehouses. Mortgages, REITS
Home Ownership, Leveraged Ltd. Ptshp. Apts., Shopping Ctrs., Hotels, Offices, Mini-Warehouses, etc.
Reg. & Private Placements Apts., Shopping Ctrs., Offices, Raw Land
All-Cash Ltd. Ptshp. Energy Leasing
Leveraged Ltd. Partnerships Leasing Cable All-Cash: Energy
Private Placement Oil & Gas Drilling, Cable TV, Leasing
Reg. & Private Placements Agriculture Cinema Horses R&D Commodities
FAIL-SAFE PLAN—GOLD, SILVER, CURRENCIES, OTHER TANGIBLES

international funds, or funds that invest in a certain sector of the economy.

Obviously, the risk in both individual stocks and in mutual funds varies widely. Again, it is important to evaluate each choice in the context of your goals and risk tolerance. Quicksand Mining may be suitable to you, for instance, if you want to gamble a bit of your money to try to get that boat—particularly if most of your investment money is in lower-risk positions.

A quick perusal of the next column, Real Estate, will reveal choices that involve more than just factoring in your goals and risk tolerance; they also involve lifestyle decisions. Ownership of a home, for example, may or may not make good financial sense for you. But the decision to purchase or not is most often based on other personal factors. Of course, housing in some form is one of life's necessities, and purchasing rather than renting may turn out to be a good investment over the long run.

In addition to your home, there are numerous investment opportunities in real estate. You can invest in rental houses, apartment buildings, office buildings, shopping centers, mini-warehouses, or raw land. Each of these, if you desire, can be a direct investment that gives you a chance to participate in day-to-day management. Or, if you prefer a more passive investment, look to limited partnerships as an effective way to invest. A limited partnership is simply a legal entity that is formed to make investments. Each limited partnership has a general partner who provides the expertise and the responsibility for managing the partnership. The general partner also assumes unlimited liability, while the investors' (limited partners) liability is limited.

Real estate limited partnerships are often divided into two broad categories: Leveraged and all-cash real estate. In a leveraged real estate limited partnership, the real estate is acquired using mortgage loans, or in other words—leverage. Traditionally, these programs were structured to give investors excellent write-offs, some cash flow, and long-term appreciation. But the new tax law affects the treatment of write-offs from limited partnerships. Passive losses from real estate limited partnerships will no longer be deducted from active income. These losses can only be deducted from passive income from other investments or carried forward. As a result, many sponsors of limited partnerships are adjusting the structure of their programs, de-emphasizing tax benefits and emphasizing current cash flow and long-term appreciation.

All-cash real estate limited partnerships, on the other hand, never emphasized write-offs, so the impact of the new tax law is more modest. These programs are structured with no debt on the properties so the early cash flow to the investors is normally higher than on leveraged real estate. In addition, the cash flow is partially tax sheltered, and these programs should provide some long-term appreciation potential.

When evaluating real estate investments, the economic potential should be your primary consideration, but careful analysis of the new tax law as it relates to you should not be ignored.

The next column covers three investment areas: Energy investments, equipment leasing, and cable television. The prime reasons to dedicate part of your portfolio to these areas are diversity, interest in the field, the opportunity for high return, and tax protection. The last reason grows increasingly important as your portfolio swells, but more difficult to achieve as the tax law changes.

The traditional way to invest in energy is through oil and gas limited partnerships. If you desire to have some oil and gas in your portfolio and want to receive current income, you can invest in an oil and gas income program. These programs purchase oil and gas properties that are already producing. If you are willing to take a greater risk for a possibly higher reward, you can invest in a program that drills for oil and gas. The new tax law and the volatility of oil and gas prices necessitate caution when considering this area for investment.

Equipment leasing partnerships invest in a wide range of equipment and then lease it to corporate users. In return for supplying funds to purchase the equipment, the investors would receive any tax benefits available and a cash flow from the rental income.

Cable television limited partnerships are similar to real estate partnerships. Instead of acquiring real estate, they buy and manage cable TV systems. These programs also can be either leveraged for maximum growth potential or all-cash for current income and growth.

The last column of the diagram represents some miscellaneous investment opportunities. These are usually more speculative in nature and should be evaluated in the context of your investment objectives and your tolerance for risk. Often, the greatest appeal of these investments is avocational in nature. That is, you might choose to invest in horses because you like horses rather than because you think you will make a great deal of money.

Finally, across the bottom of the diagram is the fail-safe plan, the section that represents the purchase of gold, silver, currencies, and other tangibles. A portion of your funds could be invested in hard assets for speculation or as an insurance policy against inflation or worldwide economic calamity. But be careful not to get caught up in the gloom-and-doom thinking that always seems to lurk around the corner—particularly the corner where many of the hard assets people hang out.

Implement your plan. Now that you have looked at your present position and the various alternatives, it is time to implement your plan. Set up your own blank diagram, and position your current assets on it. How close does your current portfolio come to meeting your goals? Are you as diversified as you would like to be? Are you too heavily invested in guaranteed dollars? Are your liquidity needs covered? Are you hedged against inflation? Does your portfolio match your true tolerance for risk? Do any of your investments need to be repositioned, particularly in the context of the new tax law?

Review the alternatives and consider moving your assets to areas you feel to be the best investments in light of your financial resources and goals.

Periodically review your plan. The final step in successful investing is to review your plan on a regular basis. Although you may have made the best possible investments you could have made at the time, nothing should be written in stone. Your personal circumstances change, tax laws change, and economic conditions change. Your total portfolio plan should be reviewed and adjusted on a timely basis. After all, who knows what juicy tidbit you might pick up on your next visit to the health club?

If you follow the steps outlined here, you should be on your way to developing a well-balanced, diversified plan that fits your individual goals. Of course, there is no assurance that every investment you make will be successful. But if you stick with your plan, and seek good professional advice when necessary, your gains should far, far outweigh your losses. □

By Michael Nels Thompson: *Freelance writer; account executive for VanCaspel & Co. Inc., financial planners.*

GIFTS THAT GROW

This holiday season, why not give a gift that keeps on giving?

By Amy Diamond Vye

During the early part of the 19th Century, it was not uncommon for fine watchmakers to be commissioned to produce a musical gift item for royalty. Quite often what was produced was an elegantly jeweled and enameled box containing musical movements. These majestically adorned musical boxes were not only beautiful to the eye, but also to the ear and, as such, were gifts truly fit for any king, queen, or other member of nobility.

Through time, musical boxes of all types, shapes, and sizes have remained popular as gift-giving items as well as with collectors who are well-tuned to their steady rise in value. Just consider the enameled gold singing bird box shown on the facing page. This musical box, which was made in Geneva, Switzerland around the first quarter of the 19th Century, sold at auction for $44,000 in 1982. While it obviously is prohibitive for most people to buy such an extravagant gift, it *is* possible to find an antique music box for quite a bit less. Some boxes can be acquired for as little as a few hundred dollars. What makes one box more expensive than another? Essentially, how it looks (the condition), how it sounds, and the company that manufactured it. Each factor should be considered when you go shopping for an antique music box.

An old music box is just one of literally hundreds of gift-giving ideas you can garner from the investment arena. These gifts, many of them antiques and collectibles, make special holiday gifts because they will keep on giving—appreciating in value—long after the holidays are over. So before you complete your shopping list this year, take a look at the following suggestions.

Twig. Originally used around the turn of the century in houses, resorts, and cabins around the Adirondack Mountains, twig furniture can now be seen in homes and offices across the country. And there are many different items from which you may choose—something as small as a picture frame or basket, or as large as a sofa or bed.

Perhaps the best reason for the current widespread popularity of twig, and why so many people find these rustic pieces so appealing, has to do with its sculptural quality. Like the child's twig rocker shown on this page, many of the twig pieces are marked by such graceful, sinuous lines. Twig pieces tend to blend in well and soften a contemporary environment. And twig also is affordable, with pieces generally available for about $75 and up.

Silver Jewelry. When it comes to buying someone a very special, personal gift, jewelry is one of the best choices you can make. And silver jewelry, particularly the work of Georg Jensen, the Kalo Shop, and the Mexican silversmiths, is currently enjoying a fervent revival.

Pins and brooches are very popular

PHOTO BY DAVID LYLES

items, but other pieces, including rings, bracelets, necklaces, earrings, cuff links, money clips, and key rings, make excellent gifts, as well. And items featuring a designer's name or mark are the ones most likely to appreciate in value.

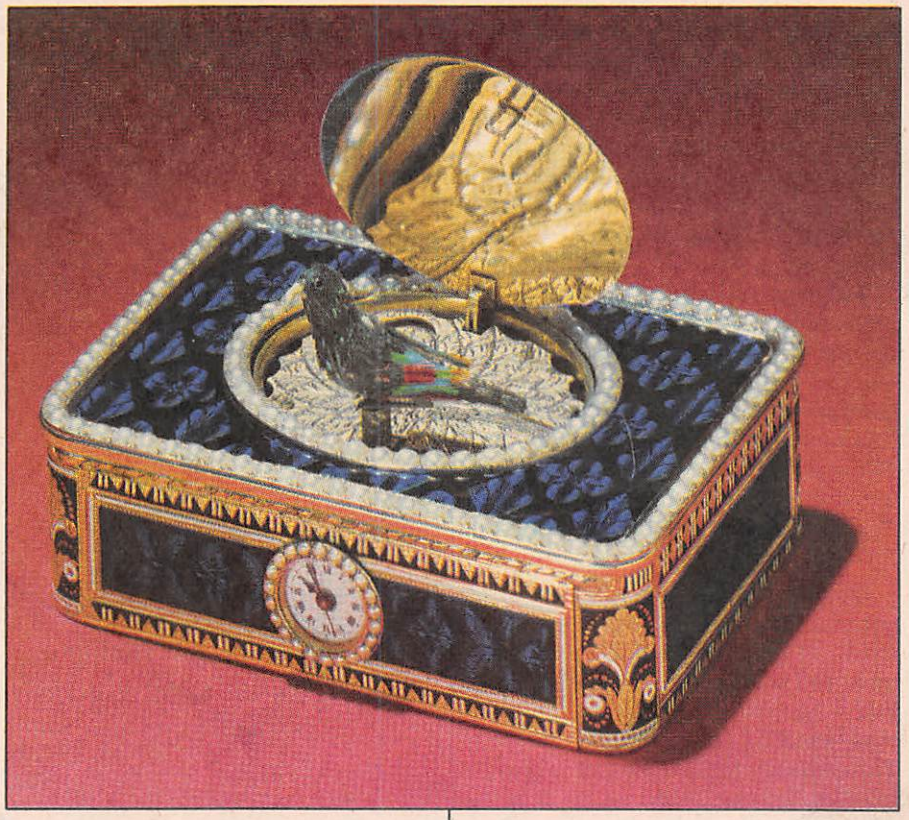
What prompted this renaissance? According to Rosalyn Pranian of Harvey Antiques in Evanston, IL, one reason has to do with fashion. "It (silver jewelry) makes a very bold and definite statement." But it also has to do with a real interest in the art deco and contemporary designs right now, adds Pranian. And finally, as a precious metal, silver jewelry always has a certain market value in terms of the metal itself.

Be prepared to spend at least $200 for the higher quality pieces, but shop around, because you may be able to find lower prices at local flea markets or antique fairs.

Numismatic and Bullion Coins. Another precious metal also is generating a lot of interest these days. The United States has minted a new gold coin which was introduced in October. The new "American Eagle," which is being minted in one-ounce ($50 face-value) half-ounce ($25 face-value), quarter-ounce ($10 face-value), and one-tenth ounce ($5 face-value) weights, may be the best gold bullion bet for the coming year. The price of the coin will depend on the price of gold on the day you make your purchase. And you should be able to purchase the new coin through coin dealers in your area. The first mintage of American Eagles sold out in just a few days—these look like very hot items.

Many other bullion or "non-rare" coins also make excellent gifts and can be used in a variety of different ways. For instance, the Mexican Peso, which is a decorative and ornate coin, can be used to create a beautiful piece of jewelry or even to adorn a belt buckle.

Numismatic coins have always been popular gift items, as well as investments, and there are many alternatives from which to choose, according to Walter Perschke, president of Numisco Rare Coins Ltd., Chicago, IL. For example, you can make a set out of some of the less expensive coins, such as an Indian cent, a Buffalo nickel (Type 1), a Mercury dime, and a Walking Liberty half dollar. Each of these coins is in the $10 to $50 range, making them a very affordable gift. Another option involves putting together a set of obsolete coins, which are generally available in the $95 to $125 range. "Many people didn't know that the U.S. used to have a three-cent coin," says Perschke. And such obsolete coins are not especially expensive, yet they are all more than 100 years old.



World's Fair Collectibles. Because of the historical aspect of world's fairs and expositions, souvenirs from these events make wonderful gifts for children. And quite often, a gift of this nature will spark an interest in collecting for children, too. But like memorabilia from the Olympic games, particularly the enameled pins which are passionately traded by both children and adults, world's fair collectibles are popular with people of all ages.

From iced tea spoons, salt and pepper shakers, and pins to post cards, posters, and plates, you'll find a sizable list of world's fair collectibles. Posters may be a good buy right now, since they are getting scarce, says Lois Jacobs of Lois Jacobs Americana Collectibles, Chicago, IL.

The upcoming 100th anniversary of the Columbian Exposition (Chicago, 1893) may also make these items more valuable. No matter what type of item you do choose, though, you'll find world's fair collectibles are extremely affordable—anywhere from a few dollars on up.

Royal Doulton Toby and Character Jugs. The original 18th Century Toby Jug depicted a seated or standing figure dressed in frocked coat and knee breeches, holding a foaming jug of ale and wearing a tricorner hat whose corners formed a convenient spout. The Tobies were displayed in the chimney corners and window sills of farmhouses and cottages, as well as being used as containers for beer and ale in taverns. The Toby Jug has always been associated with a spirit of conviviality—feasting, drinking, and good company—and, thus, make splendid gifts during the holiday season, which also is marked by a spirit of celebration.

Character jugs are unique Royal Doulton products introduced by the firm in 1934. Unlike the full-figured Toby Jugs, the Character Jugs depict a head study of a subject from history, legend, song, or story.

At present, there are 52 subjects in production and a multitude of discontinued jugs. The availability of discontinued subjects varies depending on the length of time each was in production. Obviously, certain jugs are rarer than others, making them more valuable to collectors. And as more people have become interested in collecting, competition for older pieces has increased.

The jugs, which are generally available for about $75 and up, are sold at a variety of different locations, including many gift and antique shops.

Comic Art. People are starting to really get *serious* about comic art, according to leading antiques and collectibles

Rocker: Harvey Antiques, Evanston, IL Music Box: Christie's, New York, NY

expert Terry Kovel, who has particularly fond memories of the Disney movie cels. "At one point in time, I got one for my daughter and one for my son signed by Walt Disney," says Kovel. "It was a public relations type of thing, and it was only a $10 or $15 item—it wasn't a big deal. Now, they're worth $4000 or $5000 apiece, partly because Disney signed them."

Although it would be difficult, if not impossible, to find one of these vivid, handpainted cels for $10 or $15 today, you can find them in the $100 range for some of the later examples, says Kovel. Obviously, as the cels get older, they also become more valuable. Disney cels are sold at Disneyland and Walt Disney World, as well as at galleries throughout the U.S.

Quilts. Antique quilts of all sizes continue to be very, very strong in terms of popularity and value. And more and more people are finding alternative uses for quilts; they are now more than something to just put on the bed. The exquisite handiwork that makes so many quilts true works of art is being displayed on the walls of homes, corporations, and museums all over the country. In fact, many corporations are assembling impressive quilt collections.

Amish quilts, which are set apart by their bold graphics and deep, rich colors, continue to be very strong in terms of price appreciation. But you're likely to pay more for an Amish quilt. Good Amish quilts probably start around $1000, according to Harvey Antiques' Pranian.

However, there are many other quilts that are less expensive. The key is to shop around. For instance, you may be able to find a beautiful antique quilt at a flea market or antique fair for just $100 or $200. Of course, you also can buy new quilts—many are every bit as decorative as some of the older textiles—for as little as $50, depending on size.

Before you buy, though, remember to consider such factors as quality, design, workmanship, and execution—each has a bearing on a quilt's value and its potential for appreciation.

Rare Books. Buying someone a book is not an unusual holiday present, but buying someone a rare book can add an entirely new dimension to this fine gift-giving custom. And this particular

PHOTOGRAPHY BY DAVID LYLES

area of gift-giving offers a great many alternatives.

For instance, you can buy a rare book and gear it to someone's specific hobbies or interests, such as cooking, medicine, art, poetry, or children's literature. Or you can buy recognizable classics by such authors as Dickens, Twain, Faulkner, Fitzgerald, or Hemingway, in first edition. Generally, you'll have to pay anywhere from $50 on up, depending on the condition of the book. In the case of the classics, price will also depend on how important that book was in the collection of the author, and whether it was published in a small edition.

Giving someone a leather bound book is yet another variation on the book buying tradition, and the book doesn't necessarily have to be a first edition to make an attractive present. Old leather bound books can be purchased for $25 and up. Leather bound sets, though, can cost several hundred dollars.

Christmas Ornaments. Old Christmas ornaments are beautiful, prized items avid collectors search for year-round. Generally, the most desirable ornaments are the figural ones—Santa Claus, Mrs. Claus, soldiers, and so on. However, the ornaments shaped like toys and food also are popular among buyers. The ones that are considered the most valuable were made between 1860 and about 1930.

You should expect to pay anywhere from $10 to $12 to a couple of hundred dollars for an ornament, depending on the subject matter, what the figure is, the rarity, and the ornament's condition. Obviously, if the paint is flaking or if there are any cracks or chips, the ornament will be worth less.

These gifts are just a tiny sampling of what the investment world has to offer. You'll be able to come up with your own list of imaginative and affordable gift-giving ideas simply by visiting one or two antique or collectible shops in your area and letting your imagination roam. □

Photo Sources: *Silver Bird Brooch:* Harvey Antiques, Evanston, IL; *Columbian Exposition Plate and Badge:* Lois Jacobs Americana Collectibles, Chicago, IL; *Numismatic Coins:* Numisco Rare Coins Ltd., Chicago, IL; *Disney Cel ("Winnie the Pooh and A Day for Eeyore"):* Circle Gallery, Chicago, IL.

HIGH-DIVIDEND STOCKS

By Richard J. Maturi

The tax reform act has been passed by Congress after months and months of analysis and discussion. Economists within the private and public sectors have forecast economic growth anywhere from two to six percent for the next year. Following their lead, some stock market soothsayers have predicted further record Dow highs, while others have persisted in issuing pessimistic warnings of impending recessions and lengthening periods of stock market gloom and rapid price repeats. Of course, the stock market has disregarded the conflicting signals and forged ahead on a steady course of seesaw action, even confounding the wizards of programmed trading.

Given all of the above, what opportunities are available to the individual investor to generate investment income while waiting for the economic storms to subside? Without the benefit of a crystal ball—or even knowing *all* the ramifications of the new tax law—it might be a good idea for investors to consider high-yield stocks as a haven for at least some of their dollars.

Why? First of all, the new tax law eliminates investment tax credits and reduces depreciation benefits for business. This will cause a temporary cutback in capital spending, which, in turn, will result in a declining demand for capital investment funds and a downward pressure on interest rates. This will probably be enough pressure to offset inflationary items, such as higher oil prices and higher government funding to finance continuing deficits. Of course, low interest rates will always make the stock market an attractive investment vehicle.

But since under the new law capital gains are now being taxed at ordinary income rates, it makes sense to shift investment funds from high-growth stocks and cyclical industry stocks. That makes high-yield stocks—traditionally not great growth opportunities—a more seductive investment alternative.

High-yield securities are stocks which pay a high dividend relative to the current price of the stock. Yield refers to the dividend paid by a company and is expressed as a percentage of the stock price. A stock with a current market value of $40 per share paying dividends at the rate of two dollars is said to have a yield of five percent.

Traditionally, these stocks have been issued by staid utility companies and found in grandmother's portfolio. But, with interest-bearing instrument yields falling and utility companies venturing into nonutility businesses, the utilities are finding new favor among savvy investors. Another stock group usually found among high-yields is the energy-related sector. With energy stock prices being battered, and despite the eventual turnaround, the yields on these securities have risen to compete with interest-bearing instruments.

When the tide of the market turns, many stocks are like fish out of water—but high-yielding issues keep swimming.

Often it is assumed that high-yield stocks are relatively low-risk. This is not true. The quality of high-yield securities runs the gamut from the highest grade security to very speculative issues. As with any investment, study the company, its industry, and the trend of the economy and its effect on your stock selection. As you read about some selected high-yield utility and energy stocks, evaluate the risk you are willing to take in relation to the potential rewards of each position.

AZP Group (NYSE: AZP). AZP Group, Inc. (formerly Arizona Public Service) has a number of things in its favor. It serves the electrical needs of one of the fastest-growing states in the nation. In1985 alone, more than 70,000 people moved to Arizona; 80,000 new housing permits were issued; and 54,000 new jobs were filled. On the electrical plant front, AZP's major construction efforts are nearing completion. Palo Verde Unit 1 is in operation and Units 2 and 3 are scheduled to come online in late 1986 and 1987 respectively. No other generating plants are planned until the turn of the century. Nearly 60 percent of current operating capacity is fueled by coal.

AZP's nonutility businesses also point to a bright future. Subsidiary Malapai Resources purchased uranium properties from Phelps Dodge's Western Nuclear Inc. in late 1985 and has secured contracts for the sale of uranium. A pilot plant is being developed, and full-scale production is scheduled for the late 1980s. Other subsidiaries are involved in real estate developments and venture capital projects.

An agreement to purchase MeraBank, Arizona's third largest financial institution with assets of $5.2 billion, for $420 million will make AZP the largest company in Arizona.

AZP's cash flow and expenses will be aided by recent refinancing of high-interest bonds at lower rates and the proposed sale and leaseback of Unit 2 of the Palo Verde Nuclear Generating Station.

Earnings hit a high of $3.88 a share in

ILLUSTRATION BY BYRON GIN

1985, up from $3.26 a year earlier. Delays and rejections in rate hearings for Palo Verde Unit 1 resulted in earnings lagging expenses. Delays, at least, are also anticipated for Unit 2. Look for 1986 earnings to be down as a result but with a rebound in 1987 and beyond. The current dividend of $2.72 is secure, yielding 9.5 percent on the recent stock price of 28¾.

Boston Edison (NYSE: BSE). Boston Edison's dramatically improved fuel mix over the past five years helped generate record earnings and dividends in 1985. Earnings per share hit $5.03. The current dividend rate of $1.78 yields 7.6 percent on a stock price of 23½—based on a recent two-for-one split.

Back in 1981, oil provided nearly 70 percent of fuel requirements. Today, only 30 percent of Boston Edison's fuel requirements are met with high-cost oil, while nuclear power, with a substantially lower BTU cost, supplies 40 percent, and natural gas adds the balance of nearly 27 percent. In addition, two fossil fuel plants in South Boston and one in Everett, MA have been converted to burn either oil or gas, giving the utility the flexibility to take advantage of lower priced fuels when available.

Other efforts to reduce costs and conserve capital include contracts with cogenerators and small power producers, as well as participation in an agreement to purchase power from Hydro-Quebec at lower rates than available in New England. Boston Edison filed for permission to invest up to $25 million in a proposed subsidiary to engage in co-generation, small power production, and real estate opportunities.

Earnings for the first six months of this year came in at $1.93 a share versus $2.13 for last year's first half. On April 12, the company's Pilgrim Nuclear Power Station was pulled from service due to a water leak in one of the plant's backup water safety systems. But the current economic boom that Boston is enjoying virtually guarantees that Boston Edison's earnings will soon resume their upward climb.

Centerior Energy (NYSE: CX). An above-average yield, projected savings from the Cleveland Electric/Toledo Edison merger, and a more diversified base of customers in the recovering northern Ohio industrial belt make Centerior Energy stock extremely attractive. For those still eligible to deduct IRA investments, Centerior offers an IRA program that allows you to purchase company shares without commission charges and in fractional quantities.

SELECTED HIGH-YIELD STOCKS

Company	10/15/86 Price	10/15/86 Yield	Est. 1986 Dividend*	Paid 1985 Dividend
AZP Group	28¾	9.5%	2.72	2.69
Boston Edison	23½	7.6	1.78	1.65
Centerior Energy	24	10.7	2.56	2.55
Central & Southwest	33⅛	6.5	2.14	2.02
Houston Industries	32½	8.6	2.80	2.60
Minnesota Power	29⅞	5.1	1.52	1.38
Niagara Mohawk	16¼	12.8	2.08	2.06
ONEOK Inc.	31⅞	8.0	2.56	2.56
Sonat	26⅛	7.7	2.00	1.96
Tenneco	41¼	7.4	3.04	2.95

**Based on 1986 quarterly declared dividends through 10/15/86.*

However, these shares aren't for the timid. Centerior has substantial nuclear exposure and substantial problems with some of its nuclear plants. The Davis-Beese plant has had one unit out of service since June, 1985. At the Perry plant, one unit's online operation has been continually delayed, while construction of a second unit has been suspended with little chance of recovery.

Earnings for the first six months dropped to $1.47 versus $1.71 for 1985's first half. The stock yields 10.7 percent at the recent price of $24 per share. There has been some good news: The Public Utilities Commission of Ohio recently granted a $76.8 million rate increase, and Centerior has another $213 million in requests on the table.

Central & Southwest Corporation (NYSE: CSR). Looking at Central & Southwest's service revenue base (Texas 60 percent, Oklahoma 26 percent, Louisiana and Arkansas 14 percent) and realizing that it has been buffeted by the depressed energy industry and a struggling agricultural sector, it is hard to believe the utility is well on its way to its 11th consecutive year of record earnings. The company earned $3.61 a share and paid $2.02 in 1985.

The company has worked hard at lessening its dependence on natural gas. Since 1977, when all generating capacity was dependent on natural gas, diversification efforts have reduced the natural gas share to 57 percent. By 1990, the fuel mix will be 43 percent natural gas, 42 percent coal, nine percent lignite, and six percent nuclear.

Other operating savings derive from a direct current interconnection that allows electricity to be shipped anywhere within the system, and a new control center that directs the flow of energy within the system, providing customers with the cheapest power at all times.

Construction expenditures have fallen from a 1984 high of $910 million to a projected $749 million for the current year. Central & Southwest looks to be a net cash generator by 1987. Despite possible disallowance of some costs relating to its South Texas Nuclear Project, the company is in a good position to continue earnings and dividend growth. Look for another record this year, around $3.75 a share.

Central & Southwest plans to continue diversification in nonutility areas that offer high rates of return. To date, the company has entered credit, leasing, and other financial ventures. Increased earnings from nonutility subsidiaries, further growth in residential customers, and a rebound for its energy and agricultural customers will help keep the yearly gains on track. The new yearly dividend rate of $2.14 a share yields 6.5 percent at a price of 33⅛.

Houston Industries Inc. (NYSE: HOU). In contrast to Central & Southwest, Houston Industries offers a 24 percent higher yield of 8.6 percent at the recent price of 32½. HI is still in the midst of an aggressive construction program, of which the troubled South Texas Nuclear Project is a part. The company's capital expenditures are projected at $2.7 billion over the next three years, of which 60 to 65 percent will have to be financed with externally generated funds.

The company is financially stable, but the high level of financing, a service area hit hard by the oil industry recession, and possible negative effects of the new tax bill will slow down earnings growth. Houston Industries restated earnings due to an accounting change relating to the downward spiral of oil and gas prices and their effect on an HI subsidiary, Primary Fuels, Inc. Earnings were adjusted downward from $4.42 a share to $4.13, still a record

year. Earnings for the first half of 1986 fell to $1.37 a share from the restated $1.66 a year earlier.

New subsidiary activity points to a brighter future. A new subsidiary, KBLCOM Inc., signed an agreement with American Television and Communications Corp. to cooperate on a joint venture cable television operating company. Another subsidiary, Utility Fuels, Inc., acquired 100 percent interest in a lignite property expected to supply the company's Malakoff plant. Innovative Controls, Inc., also an HI subsidiary, develops and markets high intensity discharge lights, electronic ballasts, and sodium and fluorescent lights. For the time being, the high yield reflects the nuclear exposure and large construction program.

Minnesota Power (NYSE: MPL). Due to its relatively minor capital expenditure requirements, Minnesota Power is becoming a cash cow. The company has been putting its funds to good use. Investment income contributed over $20 million in 1985, helping earnings increase for the fifth straight year. Earnings were up 61 cents, or 15 percent, to $4.67 a share, before a two-for-one split.

With little growth in utility earnings projected due to the taconite recession on the Mesabi Iron Range and the related steel industry woes, Minnesota Power is using its $220 million cash hoard to branch out. By the early 1990s, the company hopes to generate 25 percent of net income from nonutility operations. One such project is its 50 percent ownership in a $350 million paper mill to be built in Duluth to produce high quality calendared paper. A 26 percent interest in Deltona gave Minnesota Power a foothold in the lucrative Florida real estate market. Another move was the acquisition of Universal Telephone, a Wisconsin-based operator of independent telephone systems.

Despite contract concessions to major taconite producers, Minnesota Power earned $1.40 a share for this year's first six months versus $1.36 a share last year. The $1.52 annual dividend rate translates into a 5.1 percent yield on a stock price of 29⅞. The company's strong cash position and aggressive diversification strategy will pave the way for strong earnings growth and hefty dividend increases.

Niagara Mohawk Power Corporation (NYSE: NMK). Niagara Mohawk has been hit hard by regulatory commissions and operating problems in its Nine Mile Point 2 nuclear plant, a plant it had hoped would be ready for start-up next May. Delays in fuel loading could be a heavy drain on Niagara Mohawk, which owns 42 percent of the problematic plant. This is money that the company probably will not be able to recoup through rate increases given the regulatory climate in New York.

Early in September, the Public Service Commission imposed a $4.16 billion ceiling that limits the amount of money that Niagara Mohawk, and its partners, can charge customers through rates. The ceiling could cost NM over $900 million. To add to the firm's woes, the New York Public Service Commission recommended that Niagara Mohawk's rate of return be slashed to 11.5 percent from 13.5 percent.

The current dividend of $2.08 yields 12.8 percent on a stock price of 16¼. Despite company claims that the dividend is secure, perhaps only the speculator should tread here.

ONEOK (NYSE: OKE). ONEOK is a diversified Oklahoma energy company with interests in natural gas properties, transmission pipelines, oil and gas exploration, and contract drilling.

Contrarians with a long view may like this stock. The oil and natural gas industries have been beaten down, with little hope of a recovery in the near future. The company continues to post profits and its cash flow is good. There is no immediate threat to the $2.56 annual dividend—eight percent at 31⅞.

For fiscal 1985, which ended August 31, ONEOK earned $37.5 million, or $2.80 a share, versus $44.3 million, or $3.46 a share a year earlier. During the third quarter of 1986, ONEOK changed from the *full-cost* method of accounting to the *successful efforts* method, thereby reducing prior years' earnings and retained earnings by $66 million. So far this fiscal year, the company earned $2.52 a share for the first nine months versus $2.73 a share through last year's third quarter.

ONEOK has taken steps to improve profitability. It continues to purchase operating reserves at prices lower than the cost of drilling for them. The company instituted a pipeline capacity lease program designed to allow industrial customers to purchase a lower-priced gas supply for transmission at lease rates approximating the company's markup on direct industrial gas sales.

There is a downside risk: ONEOK has take-or-pay obligations that require it to purchase a certain quantity of gas each year. Potential contract liabilities exceed $200 million.

Sonat Inc. (NYSE: SNT). Another energy company, Sonat Inc. operates an 8800-mile natural gas pipeline, provides contract drilling and measurement-while-drilling services, and is engaged in domestic oil and gas exploration and production.

Like ONEOK, Sonat is plagued by extreme competition and restrictive take-or-pay contract provisions. Sonat's potential liabilities were $700 million at the end of 1986 and could be nearly double that at the end of 1987. In addition, Sonat's oil field service business remains disappointing.

Reported 1985 earnings were $3 million, or eight cents a share (noncash charges of $176 million, aftertax, resulted from oil and gas property write-downs), sharply down from the $216 million, or $5.33 a share, earned in 1984. Excluding any further write-downs, profits should be around $2.20 a share in 1986.

Those willing to accept some risk could earn a 7.7 percent yield while waiting for a turnaround or merger bid to drive this stock up from its current price around 26⅛ a share.

Tenneco Inc. (NYSE: TGT). For Tenneco, improvements in manufacturing operations helped offset steep declines in oil and gas prices in the first six months of 1986. Earnings from continuing operations were $204 million, or $1.16 a share, versus $98 million, or 49 cents a share, for last year's first half. An agreement to sell the company's insurance business to I.C.H. Corporation for $1.36 billion will bring in needed cash and help reduce the high debt level. Consolidation of the Case/International Harvester agricultural equipment businesses will result in several plant closings this year and improve that sector's operating results.

Aggressive capital spending in the company's oil processing and marketing sector substantially improved operating results. The firm's Newport News shipbuilding subsidiary will continue to benefit from the military's fleet buildup, while the automotive and packaging sectors are coming off record years.

Tenneco's earnings should rebound nicely this year, and with lower debt the stock is an attractive holding for the long term. Meanwhile, enjoy the 7.4 percent yield. □

By Richard J. Maturi: *MBA; staff writer for "Technical Analysis;" frequent contributor to "Barron's" magazine.*

INVESTMENT OFFERS *THAT DON'T WORK*

Among countless legitimate investment "deals" are a growing number of swindles. Be sure to watch your step.

By Diane F. Roth

Now that all the shares of the Brooklyn Bridge have been sold and most of the underwater-oceanfront property in Florida has been snapped up, what's an investor to do?

Well, you could put your money into "genetically superior rabbits," (Hare I and Hare II), or you could invest in a secret process to extract silver from used photographic film. Or, you could move your funds into a wide variety of other fraudulent schemes.

Unfortunately, that's exactly what thousands of investors are doing. Nationwide, the number of investment scams has increased dramatically during the past three years. And law enforcement officials and others predict that swindlers will continue to flourish.

The deregulation of financial services created an explosion in available investment opportunities. Today, even legitimate professionals find it hard to explain the difference between the LYONS and the CATS, the Ginnie Maes and the Freddie Macs. No wonder the layperson has problems sorting the oddball-but-honest investment from the sophisticated scam. Swindlers are capitalizing on the confusion and are making big bucks in the process.

According to the North American Securities Administrators Association and the Council of Better Business Bureaus, investors lost $750 million in 30 different Ponzi schemes since 1982. No one can estimate the total amount that flows into fraudulent deals annually.

"Based on the number of cases we're working with and the number of complaints we receive, we know that investment scams are on the increase," says Special Agent Ernest G. Locker, Jr., supervisor of the FBI fraud squad in Chicago. "But it is difficult to put a dollar amount on total losses since many people don't know they've been taken, and others are too embarrassed to admit it."

Emotional losses can be as staggering as the economic ones. In Salt Lake City, Grant Affleck of the AFCO real estate development company convinced hundreds of low- and middle-income investors to take second mortgages so they could subscribe to his bogus plan. Many now face foreclosure. In Oak Brook, IL, over 1000 investors put money in Robert Serhant's Financial Partners, Ltd.

Locker, who worked the Serhant case, says, "The human tragedy was enormous, many times the dollar amount of the losses. Many investors gave Serhant their pension and retirement funds, their profit sharing money, even trust fund proceeds. Some borrowed to invest. A 78-year-old barber invested his life savings, and a waitress literally took her money from under a floorboard in her home for Serhant's Financial Partners. One man sold 18 filling stations believing he could make more money with Serhant than in his own business. Another committed suicide when the scheme was exposed."

The tales are tragic. But, it could never happen to you, could it? Don't be too sure. Today's con artists have adopted the same state-of-the-art marketing and sales techniques used by big-name investment firms. Today's swindlers are wearing pinstripes, not polyester. They're using computers, not walnut shells and peas. They're running ads in *The Wall Street Journal* instead of peddling cemetery plots door-to-door.

To protect yourself, and your money, you should know how the most common scams operate.

Boiler rooms. The term boiler room applies to high-pressure salespeople peddling investments over the telephone. Boiler rooms became popular in the 1970s when commodities were a hot investment. Con artists rent rooms, install banks of telephones, and hire salespeople or "scammers" to make cold calls to potential customers or "mooches." Victims' names come from "sucker lists" that are passed from one bogus operation to another.

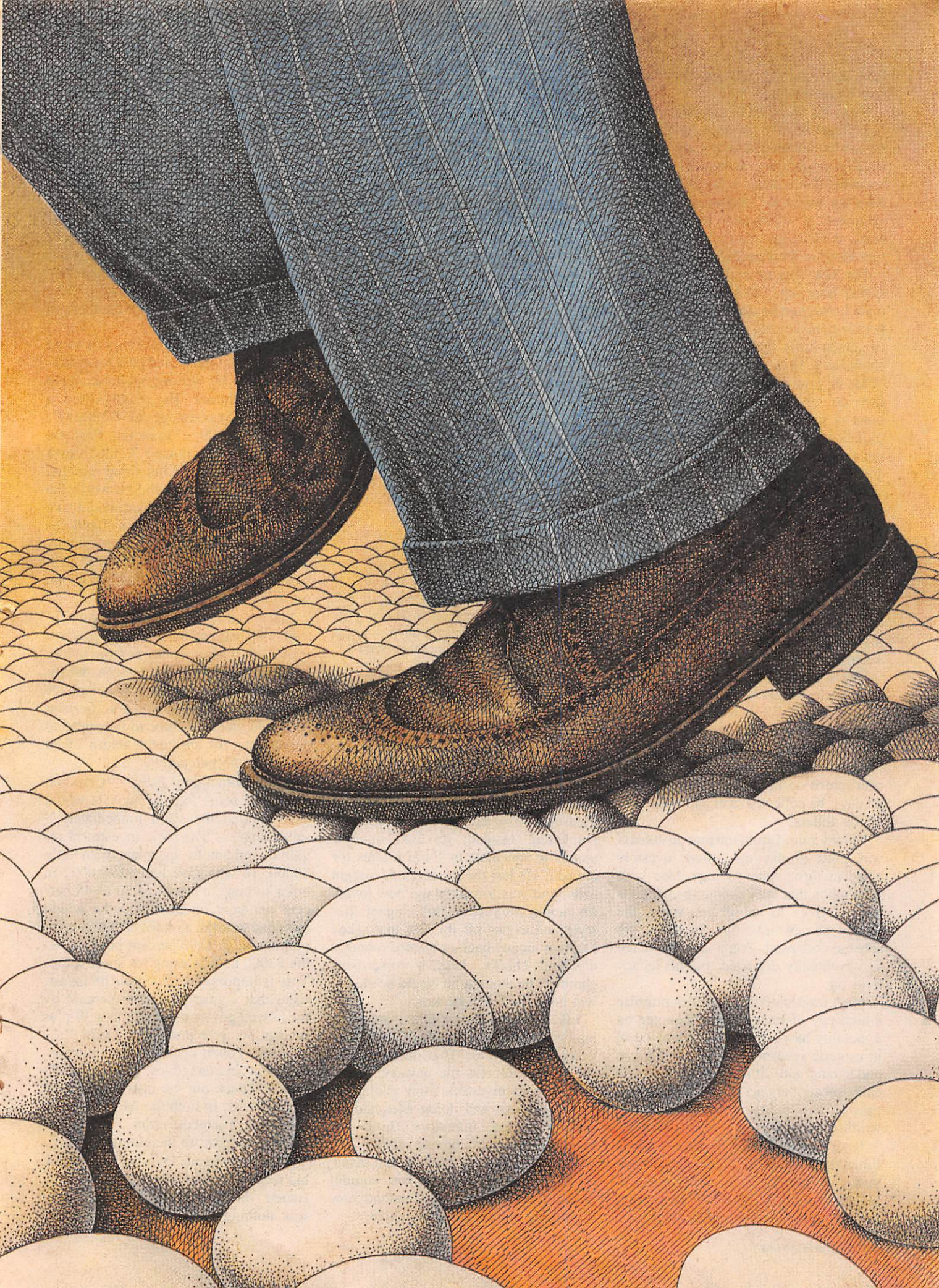
Scammers often work from prepared scripts with answers to any question a mooch might ask. Occasionally, ticker tape noise is piped in the background to foster a sense of urgency and to convey the impression that the call is coming from the trading floor.

Once a sale is made, the "loaders" take over. They call customers, congratulate them on their wise investment, welcome them aboard—and try to sell more products.

A classic example of a boiler room was the International Gold and Bullion Exchange operating in Florida between 1979 and 1983. Run by the Alderdice brothers, IGBE sold shares in nonexistent precious metals. The brothers bilked customers out of almost $140 million in less than 42 months.

Many illegal operations were closed when the federal government set up the Commodities Futures Trading Commission (CFTC). Today, most boiler rooms sell quasi-legitimate commodities through accounts that require a hefty

ILLUSTRATION BY TOM HERZBERG



front-end load fee and generate excessive commissions.

Even so, the CFTC recently warned that illegal dealers are once again offering silver futures contracts outside legitimate commodities exchanges. Customers who don't make a profit after 120 days are asked to "roll over" their investment at exorbitant fees. Dealers make it virtually impossible for investors to close their accounts.

The best way to avoid a boiler room scam? Hang up. But since many legitimate brokerage houses encourage salespeople to make cold calls, you may want to screen calls first. In this case, you should ask: How did you get my name? What is your name and address? What firm do you represent? What government or industry body regulates the activities of your company? Can you send me a prospectus on your offering? When and where can I meet with you in person? Can I have my accountant or attorney review your offering?

These questions may help sort the wheat from the chaff. But many unscrupulous dealers are smooth operators who have all the right answers, anyway.

Ponzi schemes. Remember the chain letter and the pyramid investment clubs? If you do, you understand how the Ponzi scheme works.

The scam is named for that embodiment of the American dream, immigrant Charles Ponzi. While working as a stock clerk, he enticed thousands of people to invest in his plan to profit from international postal rates. Promising a 50 percent return on money invested for only 45 days, he collected over $15 million in 1920s dollars.

Money raised from current customers was used to pay off initial investors who, in turn, were so impressed with their gains that they encouraged friends and relatives to subscribe. When the supply of new investors dried up, the scheme collapsed. Ponzi was convicted and eventually deported, but his legacy lives on.

Most modern Ponzi schemes promise a high rate of return, usually quoted on a monthly basis. Promoters tend to deal in esoteric investments that are hard to understand and difficult to track. Since early subscribers act as unofficial salespeople, the scam often spreads like wildfire through groups of investors.

For example, Robert Serhant operated Financial Partners, Ltd. for almost four years. During that time, he collected almost $33 million. Many of the first investors were doctors and dentists who encouraged their colleagues to subscribe. Later, the fraud was expanded to include other occupational groups.

The Financial Partners program was a scam. Serhant claimed to be investing in Treasury bills, but few were actually purchased. Instead, he used investor money to speculate in T-bill futures for himself. He lost the money, had margin calls, and was forced to use new investor money to support his elegant lifestyle and to pay off the few that asked for their money back or wanted monthly dividend checks. Like a compulsive gambler, he thought he would be able to win back the funds he lost.

Like Serhant, many Ponzi operators lead flamboyant, "Dallas" or "Dynasty" style lives. This opulence can dazzle and impress the unwary. It can also prevent investors from asking the right questions and doing adequate research. Many investors think—or hope—that success breeds success. It's wise to look beyond the flash and investigate thoroughly before you commit yourself. If you don't understand how something works, look elsewhere.

"People will spend five years working and scrimping to save for investments," says the FBI's Locker. "The least they can do is to spend five days checking one out."

Since Ponzi investments are often sold through word of mouth, potential customers are apt to allow friendship to get in the way of common sense and mathematical analysis. People clamor to get in on the action and forget to apply the same logical thought processes they use in evaluating other situations. See, for instance, if you can spot the flaws in Serhant's pitch:

Potential investors gathered in a room where Serhant illustrated how his operation worked by writing out an example on a blackboard. He usually used a "typical" investment of $100,000. With $100,000, Financial Partners would buy a discounted T-bill from a bank for $97,000. After three months, the bill would mature and be worth the original investment. Serhant would take the $3000 and speculate on T-bill futures spreads—the simultaneous purchase of options to buy and sell $1 million in T-bills at specified prices on specified future dates.

Since the investment was "guaranteed 100 percent by the U.S. government," the customer had nothing to lose except the potential interest on the investment for three months. Based on his experience over three years, Serhant promised yields of three to four percent per month, for an annual return of 30 percent to 45 percent.

Smell something fishy? "Common sense and some logical analysis would have spotted the scam immediately," says Locker. "The basic investment required Serhant to speculate with only $3000, so why give him $100,000? In order to make a return of 30 to 45 percent per year on $100,000, he would have had to make a return of 100 percent per month, or 1200 percent per year, on the $3000 he was using for speculation. This is impossible. Besides, the investment that's guaranteed 100 percent by the federal government and pays 30-plus percent per year just doesn't exist."

Many Ponzi operators promote investments in intangibles. That's why it's wise to check out the instruments used as collateral. In both the AFCO and the Financial Partners cases, there was nothing to back up the claims.

"One suspicious investor finally took his receipt to the bank that purportedly issued the T-bills and found there was nothing there," explains Locker.

SWINDLE WARNING SIGNS

Investment swindlers are getting more sophisticated every day. Here are some warning signs to alert you that that once-in-a-lifetime deal may not be all it seems to be. Beware of:

1. High-pressure, hard-sell tactics. Con artists want you to make a hasty decision without thorough investigation.
2. Claims of inside information. If the deal is good, why should the seller share it with you?
3. Claims of risk-free investments. There is no such thing.
4. Promises of high rates of return. Keep track of what conservative investments like CDs and T-bills are paying, and use their yields as a yardstick to evaluate offers.
5. Hot tips from friends and co-workers.
6. Offers that require you to send money to strangers.
7. Unprofessional behavior such as cheap receipts, unreturned phone calls, and personal endorsements on business checks.
8. Unclear monthly statements.
9. Pressure to reinvest profits instead of withdrawing them.
10. Vague answers about the source of profits.

"That's when he contacted us."

Churn and burn. Shady dealers as well as legitimate traders can take their customers for a ride using "churn and burn" tactics. In this situation, brokers can earn hefty commissions when they churn an account by making a number of unnecessary trades. The customer paying the commissions gets the burn. Since it's difficult to establish the difference between churning and bad luck, deception or outright fraud is often hard to prove.

The percentage of dishonest brokers is undoubtedly quite small. But judging from the recent spate of stories about illegal activities at even the largest and most prestigious investment houses, it's enough to make anyone cautious.

One Florida man allegedly lost $9 million when his grandnephew, a broker at two top-drawer firms, churned his account. The broker supposedly made upwards of $260,000 in commissions a day. In Milwaukee, a federal jury ordered another first-rate investment house and one of its vice presidents to pay a religious foundation $28.2 million for abuses in gold trading. The firm earned $2 million in commissions during a six-month period.

To avoid being burned, stay away from brokers who use high-pressure tactics and those who offer once-in-a-lifetime deals. Decide on your particular investment goals and strategies and carefully explain them to your broker. Then, question any suggestions that don't mesh with your plans. Watch your monthly statements for unusual or unauthorized trades, and don't make snap decisions based on telephone calls suggesting that you buy or sell immediately. And never authorize someone to manage your account for you. A discretionary account can be like putting a bowl of milk in front of a hungry kitten—too much temptation.

Hot areas for swindlers. What types of investments are likely to attract con artists in the months ahead?

"Whatever is in vogue at the time," says Locker. "When people turned to diamonds as a hedge against inflation, they sold diamonds. When solar energy panels and tax shelters were hot, that's what they peddled. Today's operators travel in sophisticated circles and keep track of what's going on. They learn all the buzz words and know which buttons to push. Two weeks after an article appears somewhere in the financial press, they're calculating the odds and setting up shop."

Who are the victims? Con artists don't care whether you are naive or knowledgeable, young or old, rich or low-income.

Celebrities, like the professional athletes who invested in a phony West Virginia coal mine promising a 40 percent return, seem to get the media attention. But ordinary investors are also prime targets. John Rinaldo set up the American Home Mortgage scheme and got almost $50 million from working people and retired investors looking for something to do with their retirement accounts. A mortuary attendant in Utah sold $16.5 million in bogus bonds to widows attending funeral services for their husbands.

Why do people fall for scams? Sometimes it's a lack of information, a willingness to trust any expert, or an overreliance on the word of friends. It may also be the endorsement of a prominent individual. Many invested in American Home Mortgage because former U.S. Representative Eugene Keogh, founder of the Keogh retirement plan, once appeared in commercials to solicit funds.

Then, of course, there's greed and the belief in the rags-to-riches American dream—a chance to grab the brass ring and walk through streets paved with gold. Whatever the motivation, it causes millions of investors to ignore the warnings of law enforcement agencies, and it keeps them wanting to come back for even more when the charade is over.

When Charles Ponzi was in prison, he received funds from investors who didn't want to miss out on his fabulous opportunity. "It's amazing," says Special Agent Locker. "While we were making our case against Financial Partners, some investors got angry with us because they couldn't invest any more money." Maybe P.T. Barnum was right after all. □

WHERE TO GO FOR HELP

Many investors erroneously assume that a myriad of local, state, and federal agencies protect them from swindlers. Not true. Most law enforcement officials are so swamped with work that they couldn't keep track of every investment deal that pops up even if they wanted to. Instead, they work from information supplied by investors who have already been fleeced.

If you think you have been had, your best bet is to contact the FBI, since they are responsible for investigating all crimes involving business fraud. If the Bureau can't help, they can tell you who can. Your nearest FBI office is listed in your local telephone book.

Before you invest, it may be smart to check with one of the agencies listed below. Just remember that the regulators can't talk about ongoing investigations so they may not be able to tell you whether they have received a complaint or not.

Federal Trade Commission. The FTC has jurisdiction over advertising, franchises, investments that do not involve securities, and other business opportunities. It can tell you whether or not an action has been taken against an individual or a firm under its jurisdiction. (Sixth and Pennsylvania, N.W., Room 130, Washington, DC 20508)

National Futures Association. This is a self-regulatory industry group. A free phone call will reveal whether or not a given commodities dealer is a member. (800/621-3570; in Illinois 800/572-9400)

Commodities Futures Trading Commission. You can contact this agency to learn if any action has been taken against a commodities dealer. (2033 K St., N.W., Washington, DC 20581; 202/254-8630)

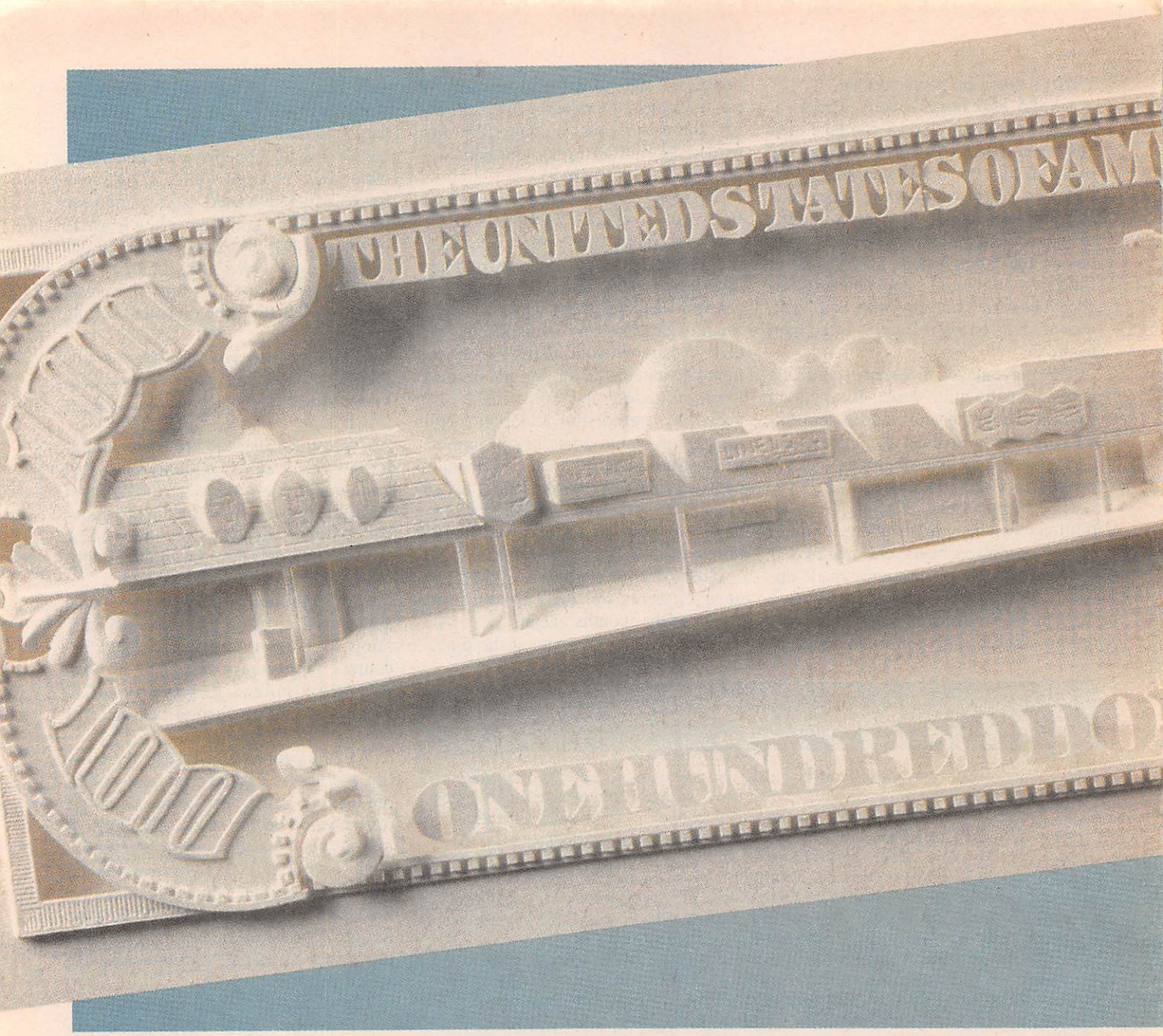
Securities and Exchange Commission. The SEC has information about disciplinary actions and complaints aimed at mutual funds, stockbrokers, and so on. (400 Fifth St., N.W., Washington, DC 20549)

Office of Interstate Land Sales; Department of Housing and Urban Development. Companies advertising land sales by mail or telephone must register their projects with this agency. OILS keeps a file on firms that use fraudulent or strong-arm tactics. (451 Seventh St., S.W., Room 6266, Washington, DC 20410)

U.S. Postal Inspector. The post office maintains files of complaints about deals offered through the mails. Contact your local inspector or the Postal Inspector in Charge. (Box 1820, Washington, DC 20066)

In certain situations, your state attorney general, secretary of state, and better business bureau can also be of help.

By Diane F. Roth: *Freelance writer; accounting firm consultant; former IRS Division Director.*



AFFORDABLE WAYS *TO BECOME A* BUSINESS LANDLORD

Consider yourself rather lucky if your business happens to need new office space right now. Free rent and other mouth-watering amenities are common with long-term leases these days.

But if you happen to be among the thousands of building owners who fell in the tax shelter trap early in the decade and bought properties purely on the strength of aftertax returns, consider yourself unlucky. Now, competition for tenants is fierce, thanks to overbuilding, and gross revenues are hurting.

The latest statistics show landlords across the country making generous concessions to win new tenants. The result: Rental bargains for commercial occupants.

Things are, indeed, tough all over for business property investors, if vacancy

PAPER SCULPTURE BY BILL MILLER

statistics and doom/gloom tax analysts are to be believed. Real estate economists, whose job it is to tally such things, report a glut of dangerously empty buildings. Even bellwether states, such as Florida and California, with otherwise sunny economies, produce stormy vacancy figures as high as 30 percent. Less dynamic states in the northern tier are posting even more dismal numbers, although the Northeast is surprisingly less hurt.

And, as if the present wasn't bleak enough, some prognosticators say business property is headed for even worse weather with the advent of write-off busting tax reform.

Don't you believe them. Contrary to fashionable wisdom, there's a new day coming for business property landlords who buy smart. The new tax rules will *strengthen* real estate markets, rather than hasten their death. With tax shelters obsolete, less money will be funneled into construction, thereby ending one of the industry's biggest, constant headaches: Overbuilding.

And as supply goes down, real estate values will rise. Moreover, rents, not tax shelters, will rule.

So, if you're an adventurous soul with a strong desire for making money, a contrarian at heart with a creative turn of mind and a willingness to pass up expensive blue-ribbon deals, the near future may offer exceptional business property buying opportunities.

With the departure of shelter-minded high-earners for other areas, the business property field is wide open for profit-oriented bargain hunters who know what they're doing. Furthermore, office buildings aren't the only exciting business property opportunities around. You can also ferret out and make good money with warehouses, strip shopping centers, freestanding commercial buildings, old gas stations, and even parking lots. The key: Pay attention to the bottom line, structure your deal to provide cash flow, and leave the tax considerations to others.

Be warned: Although business property investment in the coming years will be simpler than earlier in the decade, mistakes will take longer to recover since you won't have inflation to bail you out. Nor will tax savings make up for lack of rent revenue.

You need to do your homework. Learn how the owners of now-vacant buildings got into trouble and firmly resolve to avoid their pitfalls.

Consider first, the way business property deals were made before tax reform. Pre-1987 laws made it attractive to invest in a commercial building—any building—even if it couldn't make money. Investors counted on taking their profits not from rent revenues, but from losses that offset other income. And they looked to inflation to produce big capital gains at sell-out time.

Consequently, every developer with a blueprint under his or her arm found plenty of high-bracket earners willing to back his or her project, regardless of economics or market needs. Ultimately, they all outsmarted themselves when the market became glutted. Projects quickly dotted big city skylines faster than local markets could absorb the newly offered space.

Scarce tenants meant revenues fell far short of projections. Then along came tax reform to aggravate the situation by axing write-offs and stretching depreciation schedules.

Indeed, many financial planners are tolling the death knell for business real estate as a viable investment. Are they right? Is business property dead as a sound investment?

Yes, if you pay more for a property then its rental revenues can support. Or if you count on tax savings to make the property pay.

Yes, if historically high vacancies in

By Cindy McCartney

PHOTOGRAPHY BY LEE BARATTA

office buildings across the country frighten you.

Both can be legitimate concerns for the blue-chip real estate buyer who pays full market price for his or her investment and includes tax savings when figuring his or her yields, and is satisfied with anemic returns.

There's plenty of bad news in business property. But bad news tends to scare buyers away. And too many properties chasing too few buyers leads to price drops. And that, in turn, means real bargains for contrarians.

The fact is that commercial and industrial building values have eroded to their lowest level since 1978. The Seattle-based firm, Frank Russell Co., with the National Council of Real Estate Investment Fiduciaries, says office building values dropped .7 percent during the first half of 1986. According to the firm, industrial and retail properties fared slightly better during the same period, rising .3 percent and .5 percent, respectively, but still far below their performances of the last eight years.

Apparently, the slide is not yet over. A Salomon Brothers study concludes that land is the only development cost that has risen in real terms since 1983. In contrast, construction costs have actually dropped and will continue to slide through 1988. The company expects a building constructed five years from now to cost some 16 percent less than one erected today.

What does this mean to an investor entering the picture today? Newly lowered costs mean you will be able to offer tenants cheaper rents than buildings completed as late as three years ago . . . and still make a profit!

Economic factors aside, for the moment, business property has advantages unique among real estate investments, particularly for the small investor.

1. Easy Management. Leases tend to be long-term contracts. Business tenants, after all, depend just as much on a stable location as you depend on them remaining. This means that once you find your customer, you can expect him or her—short of business failure—to occupy the space for years. In fact, most agreements are written for five or more years, usually options to renew.

2. Predictable Returns. Business tenants typically pay all expenses—maintenance, utilities, insurance, and other costs—related to their use of the premises. As a result, you, as landlord, are better able to forecast net investment income over the long term than with, say, apartment rentals, where costs fluctuate almost weekly.

3. Built-in Inflation Protection. Office and warehouse leases usually feature cost of living accelerator clauses covering the life of the contract. That means you can provide for unforeseeables, such as mortgage rate increases and taxes (if they're not paid by the tenant). Retail leases often provide rent sweeteners, such as a percentage of gross sales paid to the landlord, in addition to the basic monthly charge.

4. Absentee Ownership. A business property occupied by solid tenants is one of those rare investments you can tuck in your portfolio and forget . . . except every month when you deposit the rent check. It is a popular choice of investors who travel frequently, spend part of the year away from home, or live in another part of the country. Unlike apartment rentals, you'll never be troubled by midnight complaints of plugged-up drains.

But business properties also have disadvantages which you must consider before signing on the dotted line.

Rental income is directly related to the tenant's business success. Businesses do fail. And with their demise goes your property income. It's true that ironclad leases offer legal assurance a court will award rent judgments, but as a practical matter, it's difficult to collect from a bankrupt enterprise.

Vacant business or commercial space takes time and money to fill. Apartments typically can be rented relatively quickly—say, in a week or even a month. On the other hand, business space can take six months or even a year to fill. Moreover, you may need the services of a leasing agent who is plugged into the commercial/industrial market. It's true, vacancies are expensive, but so are leasing agent fees, which normally cost six percent or so of the total lease amount—up front. Other factors running up costs may include extensive credit checks and fees for lawyers.

You may be unfamiliar with the market. The business of business property rental is considerably more sophisticated than, say, apartments. Most of us have built-in knowledge of residential housing because we have lived in it ourselves, at one time or another. Commercial property, on the other hand, operates in a far more complex market incorporating location, price, space requirements, esoterics (such as electrical and floor load specifications, zoning, parking), and a host of other factors. Furthermore, there's virtually an unlimited variety of tenant needs.

Changing traffic patterns can hurt. Just as residential neighborhoods can grow in or out of fashion, so can business property. Location and traffic patterns may, however, be far more critical to the business enterprise than to the apartment dweller. Consider the traumatic changes wrought by something as simple as relocation of a highway. Or even temporary difficulties that arise when local government tears up the street in front of your building.

Nevertheless, business property investment success is measured much like any other: How much money goes in your pocket after all expenses are paid. Moreover, the cash should yield a decent return on your time and the dollars invested. If any building you're considering fails the investment test, either look for another project or put your dollars in something simple, like U.S. Treasuries or savings bonds.

A successful deal will probably score on most of the following points:

- **Price**—Total purchase price will allow a profitable sale later or immediate net cash flow (gross income minus expenses) of at least 10 percent of what the same invested dollars would yield in some other investment. (Some investors insist on a 12 percent yield.)
- **Terms**—A bargain is sometimes identified not by total purchase price but by purchase funds structure. Owner financing, for instance, saves buyer cash as does an assumable mortgage at below-market rates. Low interest rates or nonexistent mortgage acquisition fees make it possible to pay more for the property initially.
- **Location**—Will the location appeal to the type of tenants you want to attract? Is it near public transportation or major highways? Is the site close to major traffic generators, such as shopping centers, amusement attractions, large employers, a university?
- **Condition**—Run-down business properties often offer great profit opportunities, but the asking prices should reflect the poor condition. Remember, you'll not only have the costs associated with the renovation itself, but you'll also lose rental revenue while the work is being completed. Add these three factors—purchase price, remodeling expenses, and lost rent—and then ask yourself if the property is really a bargain.

Please turn to page 50.

EXPERTS VIEW 1987

In keeping with the uncertainties surrounding the economy and the major investment markets, our panel of 10 experts offers a somewhat mixed view of the investment prospects for 1987. But even where there is serious disagreement about the future—regarding the stock market, in particular—there is an underlying similarity: All three of our stock analysts stress value-oriented investments for the coming year. And, as always, there are many opportunities. Here's an overview of next year, along with some recommendations.

LESTER THUROW

THE ECONOMY

Lester Thurow is a professor of economics and management at the Massachusetts Institute of Technology. Very widely published, he is one of the best-known (and most readable) economists in the United States.

MM: Your predictions for economic performance last year were right on target. What do you expect for 1987?

Lester Thurow: Basically, if you look at the last two years, we're on a kind of 2.5 percent growth path, and I think that's where we're going to stay.

The central thing in any economic forecast this year is what you believe about the deficit in the balance of trade. If you predict that the balance-of-trade deficit is going to turn around and fall quite rapidly, then you can predict an economy in 1987 that will be growing more rapidly than 2.5 percent. On the other hand, if you think the trade deficit is not going to improve rapidly in 1987, then we're fighting inflation, because we can't really have a prosperous economy in the United States with foreign manufacturers taking four to five percent of the gross national product and a lot larger fraction than that of the manufactured output.

What the Federal Reserve is doing is offsetting the negative drag of the trade deficit by lowering interest rates. But if we need to borrow so much money from abroad, the Fed would prefer not to lower interest rates. So if we just got a small improvement in the trade deficit, it wouldn't really show up as a faster rate of output in 1987, because that would give the Fed the freedom not to lower interest rates as fast as they will have to if the trade deficit is as large as it now is. But in order to get some improvement in the economy, we'll need something more than just a very small improvement in the trade balance—you need something substantial.

I think that's the key variable to watch: The deficit in the balance of trade.

MM: What is your expectation?

LT: Well, the intriguing puzzle in the trade deficit is the dollar. It has come down a lot *vis á vis* major currencies and certainly *vis á vis* the mark and the yen, but the trade deficit is getting bigger very rapidly. If you look at the first seven months of 1986 and just extrapolate that level forward for the last five months, we end up with a trade deficit of $175 billion. If you simply take the July data and multiply by 12, then we're running a trade deficit of about $220 billion. I think it's unlikely that we'll get any significant improvement in the balance of trade in the first part of 1987. I don't think, in contrast to what Paul Volcker at the Federal Reserve has been saying, that the dollar is low enough yet to really cause a big improvement in the American balance of trade. The best we can hope for is that it won't get worse. As yet, there isn't even any sign of it leveling off. If you want to be a real pessimist, and you look at the July data, you might conclude that it could have been much worse, if the Japanese hadn't bought between $2 and $3 billion worth of gold.

MM: What impact will this have? If the balance of trade remains a significant problem, what do you anticipate? Inflation?

LT: No, it doesn't improve inflation. The trade deficit does the opposite. It's a very powerful deflationary force, because it means that American producers don't get to produce four to five percent of the United States GNP. They're under pressure from foreign producers, even though the foreign producers have higher currency values.

Now, one of the things that needs to be said is, why isn't the trade deficit improving? Well, we have many countries, some of them which aren't in the standard currency indexes, such as Korea and Taiwan, where the currency has not risen against the dollar. What is happening is these countries are essentially replacing Japanese and European imports to the United States.

MM: What are your expectations for inflation in 1987?

LT: I think it will be in the two or three percent range, because commodities can't fall forever. Eventually, they have to get down to zero. We already know that the price of oil has stabilized, and if you subtract those falling commodity prices from what has been happening in 1986, then you get something like a two to three percent inflation rate, and I don't think that rate, outside of commodities, is going to get any worse. But we're going to quit getting good news from falling commodity prices and falling energy prices, and that automatically gives you a little rebound in the inflation rate. But nothing enormous.

MM: How about interest rates?

LT: As I said before, that depends on the trade deficit. If the trade deficit continues to grow, the Fed will have no choice but to lower interest rates rather substantially. The Fed doesn't want to lower interest rates—because that could cause a run on the dollar, stopping foreign lending—and if the trade deficit is improving, the Fed won't lower rates. Here again, the key thing to look at is the trade deficit.

Because I think the trade deficit is not going to show any remarkable improvement, I'm basically forecasting that the Fed will have no choice but to lower interest rates another percentage point or two over the next 15 months.

MM: What will your forecast mean to investors?

LT: Well, it means that if you're buying stock in those companies which should benefit from a rebound in American exports or a fall in American imports, it doesn't look like the rebound is immediately on the horizon. On the other hand, I would argue that it means there are still capital gains to be made in bonds, because when interest rates go down, the price of bonds goes up.

MM: If commodities don't recover, do you have any concern about a renewed recession or deflationary collapse of some kind?

LT: I don't think so. We haven't had an accidental recession in this country since 1961. Every recession since then has been deliberately caused by the administration or the Federal Reserve Board because they felt there was too much inflation in the economy and slammed on the economic brakes. To get a recession now, I think we have to have inflation so high that either the administration or the Fed would be willing to slam on the economic brakes, and I don't think there's that much inflation in the system. Plus, I think they'd be very reluctant to see a deliberate recession occur at the moment, because of all the financial borrowing, the weak banks, the weak farmers, weak oil companies, and so on. If they really let a recession occur, we would get a real wholesale wave of bankruptcies, and I don't think the people running our government's economic apparatus want to see that.

IRVING BLACKMAN

TAXES

A CPA, attorney, and senior partner in the accounting firm Blackman, Kallick, Bartlestein, Irving Blackman is known to MONEY MAKER readers for his regular "Tax Digest" column. He also lectures frequently on tax strategies.

MM: Tax reform is causing a lot of changes for investors in 1987. What do you consider the most significant impact of the new law?

Irving Blackman: It would depend on the nature of the investor and his or her situation. If you're into tax shelters that are ticking up losses, you're going to be hurt. If you're into tax shelters that have matured and are making a profit, and you're in a very high tax bracket, you'll laugh all the way to the bank, because tax rates are down. If you're an investor who deals in capital gains-type properties, the tax law's going to hurt badly, because long-term capital gains are going from a top bracket of 20 percent this year to 28 percent next year.

If you've got a gain already this year, one big question will be, should you realize it now and pay a maximum tax of 20 percent, or should you hold until next year, when you'll be taxed at the 28 percent level?

Suddenly, that's a consideration. You're also going to have to look at what you've done so far this year. Do you have long-term gains? Do you have other stocks that would yield a loss? For example, if you sold them this year, the way you normally would to offset the gains, that won't be a good strategy anymore. You may want to let the long-term losses sit, because next year you'll be able to write them off against a higher capital gains rate.

Get rid of only those properties that would be long-term gains this year to take advantage of the lower capital gains rate, and wait until next year to sell the losses, when you'll be able to set off the income, up to $3000, dollar-for-dollar against a 28 percent tax rate.

MM: It's a broad area.

IB: Yes, it is. You've got to specifically identify your investments to identify the changes that will occur. The investment will be either active or passive. If your investment is something in which you participate directly, like running a business, then nothing is changed. But if it's something that is yielding passive investment income, then there's a new set of rules where interest expense—investment interest expense—can only be offset against investment income.

MM: What does that ultimately mean?

IB: What it boils down to is if you have profits—if you have more than one investment in activities in which you are an active participant—then you line them all up. You take those that yield a profit and those that yield a loss, and you net the losses against the profits. And at the end, you'll come down with one of two numbers. If you have a profit, you'll pay tax at ordinary rates—there's no capital gains anymore. If you have a net loss from passive activities, you cannot deduct it. The only thing you can do is carry it forward into the next year, where it would be the first loss of the year. Then you go through the activity all over again—adding up all of your losses and all of your gains. The only thing you can do is carry them forward and hope you can offset them against future passive gains.

MM: That doesn't sound attractive.

IB: Well, remember, one of the things that *has* been done for you, if you're making an income, is tax rates are lower. The only investor being hit here is one who had losses. No one else is being hurt. The people who were in tax shelters that had passive losses are being killed. That's who they meant to get, and they got them.

MM: Are there any new wrinkles in tax strategy that would apply now?

IB: The joke going around the industry is that there will be a lot more hookers, because they'll still be able to hide their income. Actually, the strategies vary with the types of investments a person has. For example, if you're going to have a lot of passive income, or a lot of passive losses that you can't deduct, then you'll be looking for sources of passive income that are economic, because, in effect, you'll have tax-free income. To the extent that you won't pay tax on passive income that is offset against losses, you'll have tax-free income. So it will change the investment habits of those who used to look for passive losses in tax shelters—it'll turn those people around. And the marketplace is already responding with deals that do just that.

MM: What does this mean stock investors should do?

IB: They don't have to be concerned any longer whether they have short- or long-term gains, because they're going to be taxed at the same rate, anyway. To the extent that they didn't do it before, they might think of being a short-term trader, if they can make money at it. They don't have to worry about the six-month deadline.

MM: What should investors do now, in 1986?

IB: One thing people should remember is that 1986, what's left of it, is a bumper year in terms of tax planning. Year-end tax planning *always* works, and the best time to do it is when you have a new law, because you can take advantage of the transitional rules. Another good time to tax plan, which will always help you reap savings at the end of the year, is when there's either an increase or decrease in tax rates. This time we happen to have a decrease. So now there are two reasons, on top of the normal reasons for year-end planning, to plan carefully: We have a new law, and we have reduced rates. So it's incumbent upon everybody to do tax planning as soon as they possibly can, particularly investors, who should have time to react. Investors should project their tax consequences and juggle income and expenses between 1986 and 1987, so they can have a good overall impact. And they have to do it *now*.

DAVID DREMAN

STOCKS

David Dreman is known primarily as a contrarian—his most recent book is *The New Contrarian Investment Strategy*. He also writes a column for *Forbes* and manages large portfolios through his investment firm, Dreman & Embry.

MM: What's the current state of the stock market, and what can we expect next year?

David Dreman: We're undergoing a long overdue correction at this point (October). The market has gone up for more than four years without any correction whatsoever. Even in the great bull market after World War II, in the first couple of years, the market saw corrections of anywhere up to 10 or 15 percent. We've gone through four years without a correction of more than seven percent, even this fall, so I think this is just very normal, and overdue. I still think we're probably very much at the midpoint of a long-term bull market which could carry the Dow as high as 2500 and possibly to 3000.

MM: How deep might the correction go, altogether?

DD: Well, 10 to 15 percent is quite possible. Taking a Dow at 1900, that can make it up to 300 points. We've already actually seen the market down about 175 points, so it's possible it will drop another 125. I don't think it's likely, but it's possible with the kind of investor skittishness we've seen lately.

MM: Do you have a time framework for this?

DD: That's one of the hardest things to do, and most people who try to market-time are usually in much too early or late. We really don't know when it's going to bottom out, so we just stay fully invested in a market like this. As stocks break down further, we just shift our portfolios to those which we think have broken the most—those we consider the best buys. We don't try to move in and out, because very often, if you try to do that, you miss it.

MM: To pull this together into an overview, what do you expect?

DD: I think probably we could have weaker markets for a number of months, but I think the market will be higher by the end of 1987, higher than it is now. Possibly, it will be significantly higher.

MM: What does a contrarian do in a down market?

DD: If you think the market is really sound, as I do, you hold on and just reshuffle your positions. As weaker stocks or stocks that you like break, you just buy them. You stay fully invested, and you sell off stuff that is more fairly priced—stick with undervalued stocks.

MM: What do you currently like?

DD: I like the brokerage industry. I think First Boston brokerage is really a first-rate brokerage house, and it's trading at only 10 times earnings, well below the market multiple. It has something like a 34 percent growth rate over time. Another good one in that industry is Salomon Brothers, which has had a pretty good rate of earnings growth and should have higher earnings this year.

Some of the insurance stocks have been driven down, too. The multiline insurers are coming out of a very bad cycle—Aetna, Travelers, and Cigna all look like good buys right now. I guess some of the tobacco companies have broken very sharply, as well. Philip Morris has something like a 20 percent growth rate, and a lot is in food now.

I would also say the oil stocks are also interesting. They're acting better, now, but I'd buy them on weakness. One interesting stock in that group is Texaco, where the yield is almost nine percent, and I think the probability that Pennzoil will get a big settlement on the Getty case is low. Texaco has a book value over $50 per share and a real value of $80, and it's trading at only $34.

MM: So you feel investors should just wait out the correction, maybe buying some of the stocks that have dropped?

DD: If we had a crystal ball, we'd be a lot better off. No two corrections are the same. People try to read patterns, but it's almost like reading tea leaves. A lot of people thought we were going to have a major correction in October of 1985, when the market was down five percent. It's down seven percent now. In 1985, they got out of the market just in time to see the Dow go up 45 percent. It's difficult to say how long this correction will last, in other words—it could be three months, and it could be six months or even a little longer. But I think it's more dangerous to be out of this market than to be in it.

ROBERT NUROCK

STOCKS

Known as the "bearded elf" on PBS' *Wall Street Week*, Robert Nurock is a master market analyst. Author of *The Astute Investor* newsletter, and WSW's Technical Market Index, he is president of Investor's Analysis, Inc., in Paoli, PA.

MM: What can we expect from stocks in 1987?

Robert Nurock: Where we are now, in October, is that the market is moving closer and closer to the end of a correction phase, which I think began around last March or April—when most measures of market breadth peaked—and I think we're within a month or so of some sort of significant bottom. I expect the stock market to turn upward by the end of the fourth quarter, 1986, and I think the bulk of 1987 will be very, very strong.

MM: Why do you think the market will perform so well next year?

RN: My view is really based on contrarian thinking. The background on investment decision-making has moved, I think, to a very uncertain position from one of over-optimism two or three months ago. I think investors are more and more concerned about the potential negative effects of tax reform, and they're still concerned about the problems with solving the budget deficit. The trade deficit problem is of growing concern to investors, as well. Since all of these things have become major factors in investment decision-making, causing investors to rationalize sell decisions, I regard them as positive developments. That's the political scene.

In the economic sphere, there's still significant uncertainty. Economic fore-

casters have revised their direction forecasts virtually every other month, based upon the latest economic data. But the data, from my point of view, would indicate that the economy is not headed into a recession—it's going to continue to muddle through for a little while longer. Then probably, perhaps by the second quarter or maybe the third quarter of 1987, it will start to turn upward, much more broadly, in a very dynamic advance. That would be very positive for the stock market, because the market tends to discount economic events approximately six months in advance.

Fundamentally, company earnings estimates have been coming down. A major factor most recently has been analytical concern about the short-term negative effects of tax reform, and earnings expectations, in general, have been declining. That's also positive, because it again helps investors rationalize sell decisions.

Lastly, on the technical front, the consensus was very, very optimistic and bullish from the spring through the middle of the summer, and it has now turned much more cautious and bearish. Only a third of the investment advisors are now bullish, whereas two-thirds were bullish in the early part of the year. As they and the investors who follow them prepare for the worst, the worst will most likely have already happened, and the market will have a good chance of turning upward.

MM: What could cause you to revise this favorable scenario?

RN: A sharp rise in interest rates, particularly short-term rates, would be an extremely negative turn of events. In addition, I think weakness in the dollar could prove to be a negative for my scenario, primarily because weakness in the dollar might cause foreign investors to withdraw capital from the U.S., making it much more difficult for the Treasury to refinance deficits.

MM: If we're in the midst of a correction, how deep do you expect it to go?

RN: Since late spring, I've used a downside target range for the Dow of 1721–1739, but I would make allowances for maximum risk of a Dow to 1663–1681, if the market breadth does not increase. I have no real measured upside targets for the Dow, but I think the potential exists for a rather significant upswing, such as the one that began in September of 1985. If something like that occurs again, it could mean that sometime in 1987 the Dow could trade in the 2400 to 2500 area.

MM: In this context, what industries would you recommend?

RN: That's a tough question right now, because I think the market is in what I regard as the beginning of a rotational rally, where stocks that led the market before are beginning to lose momentum. Areas that are most obvious at this point, I think, are, first, airlines, because of changes in the industry. There's less competition due to mergers and acquisitions and the disappearance of many discount airlines, and the fact that airline traffic is consistently going up. The airlines ought to be able to raise fares. Another area would be the paper and forest products stocks—actually two groups. Both benefit from the lower dollar. In forest products, much of the business is export-related, and the paper industry normally has to compete with imports. Prices are firming for the industries, and both groups look like they would benefit from a broader economic turnaround.

MM: What stocks do you like?

RN: The two airlines with the best balance sheets and the most positive fundamentals would be AMR Corp. and Piedmont. In the paper group, I like International Paper and Westvaco Corp.; International Paper is a blue chip that the institutions are likely to buy as they recognize the strength in the paper group, and Westvaco is one company that looks like it is in a position to show dramatically improved profit margins as volume picks up and price flexibility returns. They spent a lot of money to improve efficiency. In the forest products area, Georgia Pacific is a stock that looks like it's beginning to emerge. Two others would be Louisiana Pacific and Potlatch Corp.

MM: Do you regard the rest of 1986 as a good buying opportunity?

RN: Yes, I do. While it's difficult to identify specific stocks now, I think that particularly in the secondary and emerging growth areas—which many analysts now think may do poorly over the next six months to a year because the stocks have come down so sharply—I would be looking for possible buys. They're out of favor, and investors will be better able to identify small- to medium-sized growth companies where the fundamentals are still intact, which have a high probability, as the economy recovers, to see their businesses and profits increase even more. Those are the types of stocks I would be looking to buy, because the next six months to a year could see some very, handsome returns.

CHARLES ALLMON

STOCKS

Charles Allmon is editor of *Growth Stock Outlook*, one of the best stock newsletters in the country. Based in Chevy Chase, MD, he also directs a closed-end mutual fund and manages $410 million for institutional clients.

MM: What is your feeling about the current state of the stock market, and what do you expect in 1987?

Charles Allmon: The current state of the market is that nobody knows where the market is going. In 35 years in the stock market, I haven't seen anyone yet who can predict it four years in a row.

Let me just tell you what we're doing with our clients' funds—we manage about $410 million. We are approximately 70 percent in cash. There are so many negatives out there, major problems on the horizon, and we're not being paid to assume the risks we see. The prices are now simply too high; the values are not there for the risks.

In such circumstances, we just do not play. That's not to say there's nothing to buy—we always find something to buy, no matter what the market's doing. But we've been selling high price/earnings multiple stocks and buying low P/E stocks, particularly those that are trading below book value.

MM: You seem unusually negative.

CA: There's a lot of risk in the market. The relative strength line of the market topped out in 1983, and it has been going down, but the Dow has been going up. We've got the biggest divergence there that we've seen in 50 years. The same is true for the Dow Jones Utility Average, where you're paying $32 for $1 worth of dividends. The last time we saw the price/dividend ratio this high was in 1966. Before that we saw it this high in 1946; before that in 1937, when the market was off 50 percent; and before that, in 1929. And there are a lot of things wrong out there. The average consumer is just loaded with debt. Until consumers can recharge their batteries, and get out from under some of that debt, they're not going to make the mirror go. I just don't think the market is going up—the downside at this point is greater than the upside.

MM: How long will this last?

CA: No one knows if we're entering a major bear market. It could last six to 18 months. We haven't seen these P/E multiples—25 on the Dow—in a long, long time. There are problems. Something has to be done about the massive deficits, after all. The market has been fueled by enormous deficit spending, and if the Gramm-Rudman thing goes through, something has to give. As I said, money makes the mirror go, and there may not be enough money to go around. Therefore, we're going to sit on the sidelines.

MM: How long have you been out of the market?

CA: We've been selling into the market rise—we were a little early, of course—for the last six months. The Dow is now back where it was last March. We expect to see the Dow falling hard again, now, down as much as 100 points in a day.

MM: You still have 30 percent in the market, though.

CA: Oh, yes. We're in some utility stocks; we're in some oils. I'm never 100 percent out of the market.

MM: Then what are you buying?

CA: I like the oil stocks. Royal Dutch Petroleum is a great buy right now. Schlumberger has more cash than either IBM or Exxon, and that's an excellent situation. Also, I think Helmerich & Payne is very interesting.

MM: What guidelines would you give for stock market investing in 1987?

CA: People must think in terms of value and forget about all those charts and so forth. The stocks that have been hurt the worst in recent weeks are those with the strongest chart formations. All of a sudden, these stocks with the strongest relative strength—the stocks with the highest P/E multiples—have come down the fastest. I would suggest that investors avoid anything that doesn't have strong, fundamental, underlying value. I'm talking about low P/Es, good, strong balance sheets, and selling at no more than two times book value—preferably at book value or lower. I think stocks selling at three or four times book value would be suspect in this market.

Don't forget, the average investor always gets in at the top and out at the bottom. The most important thing in this business is not how much money you make in a bull market, but how much you avoid losing in a bear market. That is the most important thing of all. There's going to be a lot of money made in this bear market. But you can't buy bargains unless you have cash. And most people simply don't have cash right now. This is also true of many mutual funds—most of the open-end funds are in very low cash positions. And I think we're going to see a mutual fund debacle. I would submit to your readers, anybody holding a mutual fund, if that thing drops five percent, they ought to be gone. Don't ask any questions.

There are a lot of risks in this market, and the value represented in the market does not warrant the risk. Last January, I gave a forecast—which is just a guess—that the Dow's high would be 1790, which seemed farfetched at the time. I missed by about four percent on the high side. On the low side, I guessed 1190. I still think 1200 to 1500 is a reasonable guess of where the market will be in the next six to nine months. That is not to say that we won't have one last flurry, but the downside at this point is much greater than the upside.

JACK CARLSON

REAL ESTATE

Formerly the chief economist and executive vice president for the National Association of Realtors, Jack Carlson is now a business and economics consultant. He has also served as the chief economist for the U.S. Chamber of Commerce.

MM: Where are we now, in real estate, and where do you expect the market to go next year?

Jack Carlson: Currently, the real estate market is very good—as good as it has been in seven or eight years. I would expect next year to be nearly as good as it has been over the last 12 months. It may well be just a little bit less than we've recently seen, in terms of growth and activity, but essentially it won't be much different from 1986. This is based on the fact that I expect interest rates to remain low for both fixed- and adjustable-rate mortgages. I would expect that adjustable mortgages may become a little more popular, as the year goes on.

MM: What factors suggest 1987 will be a decent year for real estate?

JC: A most important factor, if not the most important, will be interest rates. I would expect rates, on the average for 1987, will be about the same as the average for 1986. I would expect that 30-year Treasury bonds will be about 7.75 percent, for the year, and consequently, you could expect fixed-rate mortgages to be about 1.5 percent above that. So you could expect fixed mortgages a little below 10 percent in 1987, on the average. Adjustable mortgages will be tied to one-year Treasuries, which I would expect to be under six percent in 1987. Very often, adjustable-rate mortgages are set about 2.5 percent above one-year Treasuries, so we could expect anywhere from 7.5 to 8.5 percent adjustables in 1987.

Another important factor will be the fact that I expect real income to continue to grow in 1987. Where it grew by about 10 percent in 1986, I would expect it to grow more slowly in 1987, but it will still be enough to keep people confident enough to satisfy their housing needs.

MM: What about investments?

JC: Both on the investment side, and a little bit on the residential side, the tax bill will hurt. Homeowners face a tax bill that says it's not automatic that the interest paid on mortgages that are larger than the value of the home will be deductible. It may or may not be, depending on other factors. Many people who have owned their homes for a considerable time may add financing, and that financing is apt to be larger than what they initially paid for the home, 10 or 20 years ago. So there may be some interest limitations that will hurt some homeowners.

On the investment side, of course, the tax limitations on losses and interest rates are now less attractive for apartments and other commercial buildings. This would tend to make nonresidential investment less attractive. I think construction will be down, and I think on average the value of all commercial real

estate will decline by 10 or 15 percent next year, because of the impact of the tax law.

MM: Over the course of 1987?

JC: It will appear as a quick phenomenon, as a result of tax reform, but it will only be recognized when people sell their properties to the next set of investors, thus finding that the tax situation makes the purchase less attractive to the new buyer.

MM: Does this imply a good buying opportunity?

JC: It's not that a good buying opportunity will occur. The rate of return will be the same for the new investor. It's just that Uncle Sam will be taking a bigger hunk of the value of the investment at sale.

MM: Will it mean a slower market?

JC: It will represent a loss for current owners of real estate, and there will be less provision of commercial real estate. So commercial real estate will take a little while to come back.

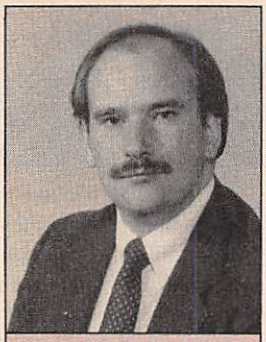
MM: Would it be safe to characterize 1987 as a flat year, by and large, for real estate investors?

JC: In terms of investors willing to invest in new units, it will be a down year—about 10 percent down. In terms of investors turning over buildings—one investor selling to another—it will probably be a little bit slow as people sort out the new tax laws, and losses are taken by current owners. The current owners will not want to take the loss for a while, just for psychological reasons.

But 1987 should see a good year to sell homes, because I think real interest rates will decline somewhat. For every one percentage point drop in the real interest rate, we tend to have pressure toward about a five percent gain in the value of long-lived assets, like buildings. This would also help commercial properties, and I think both homes and commercial buildings will be influenced by the fact that real interest rates will drop by about one percentage point between now and the end of next year.

MM: Will that be a consequence of falling interest rates or rising inflation?

JC: I would say it will actually be a little bit of both. There's still a little bit more room for interest rates to come down, but I think the inflation rate will tend to go up. But interest rates will not rise as much as the inflation rate. I would expect the CPI to end this year up about 2.25 percent, and next year it could rise about 3.25 percent, while interest rates will not rise the full percentage point.



JEROME WENGER

PENNY STOCKS

As an active penny stock investor for many years, Jerome Wenger applies his expertise as the publisher of *Penny-Stock News,* one of the best newspapers covering the fast-moving, penny markets, where stocks cost under $5.

MM: Now that there is some uncertainty surrounding listed stocks, what do you expect from OTC issues in 1987?

Jerome Wenger: To no one's surprise, the stock market has been sluggish of late. Each time it reaches 1800, it falls back as profit-takers kill rallies. But as we watch the bull charge forward, I feel we are about to see a rally in the over-the-counter market for the first six months of 1987.

Investors are becoming disillusioned with many "Big Board" stocks, but they are still looking for quality, undervalued stocks. I believe you'll be able to find them among the penny stocks—stocks costing less than $5 per share.

MM: What sorts of penny stocks should people look for?

JW: One approach is to watch the news and look for special situations. For example, when I learned that Burroughs Welcome, an English company with a research lab in North Carolina, had received approval to test its anti-AIDS drug—AZT—on humans, I immediately bought the stock, at $2.50 per share. Even though AZT is not a cure for AIDS, it has the potential to keep AIDS victims alive while the search for a cure goes on. Burroughs Welcome is traded on the London Stock Exchange, and it is companies like that which might make interesting penny plays.

MM: Most people would prefer to trade on United States markets.

JW: There are a lot of opportunities. Remember, many major firms spend a portion of their portfolios on low-priced stocks, and the market makers for the new penny stocks are often very large brokerage firms. For example, CSI Telemarketing (symbol SIT), a stock I would recommend, is also being recommended by a large New York Stock Exchange firm. CSI's a Long Island-based firm that has developed a unique approach to cents-off-coupon direct mail. Before sending out any mailing pieces, CSI conducts extensive telephone surveys for its clients, which enables them to increase the response of their mailings—normally above 30 percent! This is a growth situation, especially below $3 per share.

MM: What industries should investors be examining for 1987?

JW: I like the medical field, general services or marketing companies, and some entertainment-related stocks.

In the medical area, one company that has been making big news is Scientific Biomedical Applications, Inc. (pink sheets). SBA is a research and development company based in New Jersey. It concentrates on noninvasive detection of cardiac abnormalities, respiratory abnormalities, and substance abuse. SBA's cardiac monitor is designed to detect cardiac and vascular problems early, using a noninvasive, inexpensive technique. The company's respiratory monitor also uses noninvasive, ambulatory equipment to detect respiratory complications such as Sudden Infant Death Syndrome and emphysema. SBA has a marketing agreement with National Patent Analytical Systems to market SBA's Veritas 100 drug and alcohol analyzer. Again using noninvasive techniques, the Veritas 100 detects the presence of drugs or alcohol by monitoring the electrical stimuli to the brain from the optic nerve—it's a good unit. A lot of things, including pending government contracts and a large government grant, suggest that SBA will be a good stock for the coming year. It's priced at only $.50 per share, too.

MM: What do you like in the marketing area?

JW: An excellent marketing company is Barter Resources, Inc. (pink sheets), one of the few publicly traded barter companies in the United States. It's unique as a trading company because it has taken the theories and knowledge of other companies and packaged them—providing a mechanism and the resources for trading among its clients in a computerized and controlled manner. Barter is a vertical trading company—it deals at the retail level and with wholesalers, distributors, and manufacturers. Now, Barter's a national company with 14 satellite offices around the country.

The company currently has over 1000 clients, and it's growing at a rate of over 125 per month. One of Barter's larger programs involves trading long distance services—they traded over $1 million of long distance services in less than a year. Other subsidiaries include equip-

ment leasing and media buying. In addition, a new subsidiary, called Barter Network Communications, is a home shopping network that was test-marketed in Dallas in November.

Best of all, the company is currently profitable, and at the present growth rate, you can expect substantially higher stock prices in 1987. It's trading at only 44 cents per share, as well.

MM: Do you have a recommendation in the entertainment area?

JW: Sure. One to consider is Edgewood Films (pink sheets), a California-based company that owns a position in American Film Partners—a venture company that raises money for the major studios. Current plans call for Edgewood to move into the video library business, for public companies, as well as other entertainment-related areas. It costs only 10 cents per share.

Briefly, a couple of other good opportunities are Data System Software (pink sheets), which distributes a data processing and source data system to large companies; and Dynatec International (DYNX), which manufactures and markets a variety of products for customers such as AT&T Phone Centers, Toys R Us, Sears, Disney on Ice, and other retailers. Each recently traded below $2.

BEN LADEN

CURRENCIES

Currently a vice president and the chief economist for T. Rowe Price Associates, in Baltimore, MD, Ben Laden has also served as an economist for the Federal Reserve Board and on the economics faculty at Ohio State University.

MM: Where do you expect the dollar to go in 1987?

Ben Laden: I think the fundamentals suggest a further decline in the dollar. We've had a substantial decline already, and it may very well be that the dollar is no longer substantially overvalued. Nevertheless, the current fundamental forces are moving it toward a continued weakening.

I say that for two reasons. First, the trade deficit continues at very high levels, and it may still be growing, although that's not clear at the moment. But it means we need foreign capital on the order of $170 billion or so to finance that deficit, and this will continue to put pressure on the dollar. Second, the investment markets in other countries will increasingly be concerned about the vulnerability of the dollar decline and will attempt to diversify out of dollars. It will be some time yet before the fundamentals suggest the dollar has stopped its decline.

MM: Would higher interest rates prevent capital from leaving the U.S.?

BL: The interest rates have to be compared first with the interest rates in other countries, and on that score, our rates are high. But the difference might not be as big as might be needed in the current situation. You have to compare it to what's happening to the currency. We have had a large trade deficit for many years. Up until the early part of 1985, foreign investors did very well investing in dollars, because the dollar was going up very rapidly.

From February of 1985 until early in 1986, we had tremendous increases in stock and bond prices, so despite the decline in the dollar, foreign investors still came out fairly well. Essentially, they gained as much from American stocks and bonds as they lost on the currency. But since then, we've had a rather different situation. The foreign investors from strong currency countries are losing on the dollar and not making enough from stocks and bonds. Under those circumstances, I think funding the additional needs of the U.S. economy is going to be increasingly difficult.

MM: Which currencies do you expect to perform best in 1987?

BL: I think the surest bets will be currencies that have done well up until now. This would make the Deutschemark really the best bet, because we have in Germany a relatively well-positioned economy with a commitment to anti-inflation policies that adds up to a very positive outlook for the currency. In a similar vein, I would expect several other European currencies to do pretty well. The Swiss franc is one I think should be mentioned.

I also believe that the Japanese yen is a good bet because of the growing importance of Japan in the world capital markets. Their economy may have problems adjusting to the increasing value of the yen, but I think, because of the financial strength of the country, the yen is still ready for further appreciation.

I think we may be in a new situation, however, in that several of the less well-known currencies may turn out to give the best returns.

MM: What do you have in mind?

BL: I think we may see something like the Australian dollar giving good returns. Australia's at a turning point in terms of policies, and it's still not clear how it's going to work out. But if recent indications are correct, I think the Australians will tighten their belts enough to help the Australian dollar. The combination of a stronger currency with the higher yields that are now available in Australia could mean that Australian dollars will be among the best-performing investments for the year. It would be a riskier play, though.

MM: What investments would you recommend?

BL: I would continue to advocate international diversification. I think at this point foreign bonds make the most sense, because they give you a pure bet on the currency in addition to what I think is a good bet that interest rates will continue to go down in the major industrial countries. Stock funds in foreign countries are still a good bet, I think, but they're riskier at this point because many other countries have seen substantial restructurings of their economies as a result of the fact that their currencies have risen. Specifically, Japan is a major example, but the same applies to European countries, as well.

Their export sectors are being hurt, and they will have to cut back. The domestic sectors will be helped by the new stimulus to their economies, but we're in a rather uncertain period. In that respect, the foreign stock markets could be volatile for a while. So I think in 1987, as compared to 1986, I might lean more toward foreign bonds or bond funds, rather than foreign stocks.

MM: How much longer do you think the dollar will decline?

BL: I think one way of looking at it is

to ask, what has to happen before the dollar can recover? Obviously, it could have a rally at almost any time, but it seems to me that we have to see a convincing turn in the United States trade deficit before the dollar could really bottom out on a longer-term basis. In that respect, I think that sometime early next year we will be seeing signs that things are improving, and at that point, we might enter the early stages of a recovery for the dollar. I think we have another six to 12 months of dollar decline ahead of us, but beyond that, I think the dollar will stabilize and turn up.

JEFFREY MOSSERI

METALS

Jeffrey Mosseri is a senior vice president for Goldsmith & Harris in New York, where he is the gold and currencies analyst. Formerly, he directed the international arbitrage department of the investment firm Prescott, Ball & Turben.

MM: Many analysts feel we are in the beginning of a new bull market for precious metals. What is your view?

Jeffrey Mosseri: Well, 1987 is a long time. Let me put it this way: I suspect that the strength we have seen in the precious metals market, particularly in gold, over the last few weeks or months is basically a knee-jerk reaction to the weakness we've seen over the last year-and-a-half in the dollar.

I think that what has happened in the past few years, with disinflationary trends, is that gold has taken on a monetary role. Rather than being a precious metal, gold is acting more like an alternative to the dollar—in other words, as a currency. Gold has gone down in terms of all the other currencies, quite dramatically over the past year or year-and-a-half, as did the dollar. As the dollar dropped, gold remained parallel with the dollar all the way down. This made gold as attractive as the dollar in terms of other currencies. After the year-and-a-half, there were still some clouds against the dollar—the trade deficit and the federal deficit—and as a result, other currencies were able to buy gold cheaper.

The dollar now seems to have found a resting place, and with slightly better trade figures month-by-month, I think what will happen in the near future is the dollar will stabilize, if it hasn't already, and gold will lose its relative attractiveness to the dollar. Since I cannot justify the current prices of precious metals based on any immediate inflationary expectations—and our disinflationary picture with very stable real growth of about two or possibly three percent next year does not promise any high inflation—I therefore would not expect gold to be an above-average investment in 1987.

MM: What would move precious metals up?

JM: First of all, a further large drop in the dollar, which I'm not anticipating. Second would be a reaction to stimulus from the Federal Reserve, as opposed to accommodation, and a very rapid pickup in real GNP, which I'm not expecting, either. A growth rate of five or six percent or whatever—something like that would then once again fuel the psychology of inflation. Whether inflation would actually follow or not is another matter, but it would definitely fuel that psychology, which would raise interest rates, and people would say, 'Here comes inflation again,' and that's the time people would dive into precious metals to protect themselves.

The other side of the picture is if people continue to lose faith in the dollar, in the sense that the ability of the U.S. government to meet its obligations is questionable—and I don't think that's likely—with the deficit continuing to balloon outward and the trade deficit continuing to be unmanageable, as well. Those would be things that could make people rush into gold as an alternative. This is not what I see happening.

MM: What about platinum?

JM: Platinum is a slightly different story. Now we're talking about a specific focus on South Africa—most platinum is produced in South Africa or Russia, with the very largest part out of South Africa.

There is something in platinum that we haven't seen in the other precious metals. It has been retailed, produced in one-ounce bars, popularized, and a lot of platinum has gone into private hoarding, which it never did before. The reason for platinum to rise so much more rapidly than gold is specifically tied, I believe, to the South African situation, and sanctions. As with the stock market, you buy on the rumor and sell on the news, and I think we should expect some kind of correction from the overbought situation in platinum. People bought to protect themselves in the event of sanctions, and I don't think the sanctions are going to have that kind of impact on platinum. The production of platinum will continue, and it will be shipped, and it will be bought around the world. It is needed industrially, and as a result, I can make a better case for platinum, after a correction, than I can for gold or silver.

MM: Are there any good investments in the area for 1987?

JM: Well, for the individual investor, there are many ways to play gold, for instance. A series of mutual funds invest in gold. I would suggest Strategic Investors as a more aggressive fund, and International Investors, Inc. as a more conservative one. For those who are not concerned by the relationship between investments and apartheid, ASA Ltd. would be a vehicle. However, I hasten to underline that I am *not* recommending any of these at this point. I'm *not* looking for gold to go up in 1987.

At the moment, we're almost in stagnant disinflation. We're growing very steadily but very slowly, and there are no pressures for the CPI to rise. Most of the people who talk about gold will point to two things. One, the value of the dollar is eroding and will continue to erode, and therefore we can expect gold to go up. Two, OPEC is getting together, and we will see a $20-plus oil price, on average, over the next two years. I think things will remain much more stable than that. In fact, in the past, the one enemy of gold has been stability and lack of fear.

MM: What could change this?

JM: The one point that could make me completely wrong is a major Middle Eastern conflagration or success by Iran. If Iran took over the port of Basra and some refineries, you probably would see the price of gold shoot upward, as they would control much more of the future price of oil.

MM: Would it be safe to consider 1987 as a decent buying opportunity?

JM: It may well be. We're talking over the entire year, and between now and the end of 1987, you may well be presented with such a buying opportunity—at lower levels.

Since I consider platinum less vulnerable than gold, there are three platinum plays that I think people could comfortably buy, after a correction. They are Rustenberg Platinum and Impala Platinum, which are both South African mines, and Lydenburg Platinum, which is a NASDAQ stock. But again, I cau-

tion people not to get overly enthusiastic about hedging against inflation which may not come, and I think that mutual funds and common stocks may provide a better return over the next year.

JACOB BERNSTEIN

COMMODITIES

Jacob Bernstein is president of MBH Commodity Advisors of Winnetka, IL. One of the country's top commodities analysts, he is also a trained psychologist—his books deal with futures strategies or the psychology of investors.

MM: What will the commodities markets be like in 1987?

Jacob Bernstein: That's a tough question. I think the best way to answer it is to say we'll see more uncertainty than anything else.

MM: Why do you say that?

JB: Because I think the economic climate is still highly tentative, very uncertain. I think the secular trend for most commodities is still bearish. But the other side of the coin is that there will be political motivations which will likely result in continuing efforts to stimulate the economy. That's going to give us an upside push. Between a secular downtrend and a short-term push to the upside, it will make for highly erratic, volatile markets.

MM: Throughout the year?

JB: I would say so. I do have some markets, for example, some of the grain markets—in particular corn and wheat—which between now and mid- to late-1987 could make some major, major lows. It's entirely possible, for example, that the nine-year cycle in wheat has already bottomed in 1986.

MM: Within this context, do you expect prices to drift down?

JB: I expect them to move higher, and I suppose "drift" is a good way to describe normal markets. But I think we're in very emotional markets, now, so rather than "drift," I would say I expect the markets to spike higher and then be hammered down. I think the kinds of declines we saw in the stock index futures not too long ago are going to be characteristic of some of the declines we'll see in other futures markets in 1987. In other words, panic-type selling—major declines over a brief period of time, then a lengthy recovery period. That should typify what we'll see next year. But I think we'll see rallies first, and these should begin very early next year.

MM: That would suggest that if people are really bold, they could make a fortune on the price swings.

JB: I would say so. But there are a few exceptions to the rule—markets that I think are going to have good trends. One of those is the wheat market. Wheat is really so unromantic—the market lacks sex appeal—but from a technical standpoint it is shaping up to be one of the best markets, on the long side.

MM: That's nice to hear, since back-and-forth speculation won't appeal to everyone. When do you expect wheat to start moving up?

JB: I think it has already started. I've been recommending longer-term positions. It looks to me as if we saw the lows for the wheat market about two or three months ago. We're at a crucial point, here in October, and I would say that by December, if the March wheat futures are above 280—or have been above 280 and are maintaining an uptrend—it would be a very positive long-term indicator.

MM: What would you recommend for those who want to play wheat?

JB: Take real distant contracts and roll them over. We've been accumulating March wheat positions. Unfortunately, the call options for wheat are traded on the Kansas City Board of Trade, and they're real thin. Otherwise, distant options might be a good speculation.

MM: Are there any other markets you would recommend for 1987?

JB: At some point in the next few months, we'll be looking at corn from the long side, soybean oil from the long side, and, in fact, to make a blanket statement, we'll look at most of the grains from the long side in the next few months. The sugar market has potential from many different standpoints, I think. Number one is that it's inflation-sensitive, so if we get a little uptick in inflation, sugar should respond to the upside. Precious metals might be worth a look, too. Not right now, but early in 1987. It's possible that silver will make a major low by midyear.

MM: What basic strategy would you suggest for 1987, in that case?

JB: As a general rule of thumb, what you want to do early in the new year is trade from the long side. A very simple rule is to wait until January is over, and then trade penetration in most of the markets. For example, after January is over, you check the high and the low for the month in, say, the meat markets or the precious metals. Then, if at some point, anytime thereafter, you see the market close—on a weekly basis—above the highest point for the month of January, you want to be long in that market. Conversely, if the market goes below the lowest low of January, again on a *weekly* basis, you will want to be short the market. It has to be on a weekly closing basis. From that standpoint, you can also take option positions, relatively cheap ones, and the potential could be quite good.

MM: From a very speculative point of view, perhaps for use with futures options, which markets do you think will be the most exciting in 1987?

JB: I think it's going to have to continue to be the interest rate markets, stock index futures, and currencies. But I think we'll see a return to basics. One thing I see for 1987 and beyond is a change in the character of the markets. In the 1970s and early 1980s, the hot markets were basic, agricultural markets—the traditional futures markets that represent something real, such as corn, soybeans, cattle, hogs, and so on. These are all markets that represent something tangible.

We then saw a big shift away from those markets, to stock indexes, currencies, commodity research bureau indexes—which, incidentally, will probably be hot in 1987. While these markets represent something real, they don't represent basic goods. As the U.S. economy—in fact, all of the free world economies and even the socialist and communist economies—continues to suffer in this disinflationary trend, there will be a return to basics, I think. □

Coin Digest

Most bullion coins and bars should perform well in 1987 if the experts' optimistic predictions regarding precious metals prove to be accurate.

"The next 12 months will be one of those extraordinary times when almost every major market booms, including gold," predicts Mark Skousen, editor of the Potomac, MD-based newsletter "Forecasts & Strategies." He says "$450 or higher gold is likely soon, but the chance of $800 gold, let alone $2000 gold, is virtually nonexistent."

Three major developments reinforce Skousen's positive gold forecast: The startling strength of gold in the face of plunging oil prices; the fact that gold recovered from industrial scrap and recycled jewelry has dropped sharply—from over 21 million ounces in 1980 to about 8.5 million in 1986; and the marketing of new gold coins by Australia, Luxembourg, Brazil, the U.S., and Japan.

Your best gold bullion bet may be the new American Eagle coins (see page 18), since they probably will qualify in 1987 as an Individual Retirement Account (IRA) investment.

However, U.S. one-ounce gold commemoratives are favored by James Cook, president of Investment Rarities Inc., of Minneapolis, "because of their attractive collector potential and low mintages of 35,000 to 500,000." He suggests you exchange your Krugerrands, Maple Leafs, and 100 Coronas for any of the one-ounce gold commemoratives that were minted from 1980 to 1984 to honor Grant Wood, Mark Twain, Louis Armstrong, Robert Frost, and Helen Hayes.

"If they start climbing soon, they could go to a handsome premium," says Cook, who notes that the Statue of Liberty and Olympic U.S. gold coins already have jumped about 100-200 percent.

Cook also looks for MS-60 and MS-63 (Uncirculated and Choice Uncirculated) Saint-Gaudens and Liberty $20 Double Eagles ($20 gold pieces) to rise with gold and increasing collector/investor demand. He prefers the MS-63 issues, since they usually outperform their MS-60 counterparts.

Relatively low inflation rates tarnished the luster of gold's investment performance in 1986; so, some MS-60 Saint-Gaudens Double Eagles can be purchased near the prices of their About Uncirculated counterparts.

Thus, a bullish gold bullion coin market in the coming year appears inevitable, especially if gold continues to rebound from its 1985 first quarter low of $285 an ounce—a quiet recovery that has lasted longer than any of the previous short-term reversals of the primary trends of the past 15 years and therefore could well be the beginning stage of a multiyear bull cycle.

Insiders expect silver and most silver bullion coins to climb in 1987, too, since, historically, gold sets the trend for silver.

Silver may even gain faster than gold on average, according to Cloyde P. Howard, editor of "Consultant's Coin Report," of Fountain Valley, CA, who, contrary to many advisors, favors silver over gold at this time, because of the high gold and silver price ratio (71:1—at last look) and because silver is more volatile than gold.

Gains of 275 to 600 percent within the next three to five years may be netted from investments in 1959-P Franklin halves, particularly the Choice Uncirculated issues (MS-63 or better), forecasts William J. Ulrich, editor of "Capital Gains," a Minneapolis-based newsletter.

He also foresees a projected three-to-five-year growth potential of 250 to 750 percent in these silver coin rolls: MS-60 to MS-65 1963-P and D Roosevelt dimes, Washington quarters, and Franklin half dollars; 1954-S Washington quarters; 1881-S, 1884-O, and 1885-O Morgan silver dollars; and 1922-P and 1923-P Peace dollars.

You might profitably round out your silver portfolio with these issues: Any pre-1965 U.S. silver circulated dimes, quarters, and halves that are priced close to their bullion value ($100 face value of coins contains 71.5 troy ounces of silver); pre-1936 Good and Better Circulated silver dollars, which contain .750 troy ounce of silver each; and one-, 10-, or 100-ounce silver bullion bars.

Insiders also foresee an upside potential in platinum, especially if political problems in South Africa, the non-Communist world's foremost supplier, restrict the six-month supply.

Platinum is the only precious metal that has traded over $1000 an ounce—in 1980 when gold hit an $847 high. It may be awhile before this strategic metal, stockpiled by the U.S. for defense purposes, hits $1000 or more again, but the demand is expected to jump about 20 percent once catalytic converters are required on cars in Western Europe and Japan. So, in 1987, it may pay to buy one-tenth and one platinum Nobles, containing one pound and 10 pounds sterling, respectively, and one and ten-ounce platinum bars (99.95 percent pure).

And most U.S. copper coins should perform well in the coming year, despite a relatively quiet copper market that is expected to hover in the 60 to 75 cent range. Traditionally, copper coins aren't as sensitive to bullion movements as are many gold and silver coins.

But you could have nearly doubled your money or better within three years if you had purchased the following copper coins in 1983; it could happen again, so you might want to consider them in 1987:

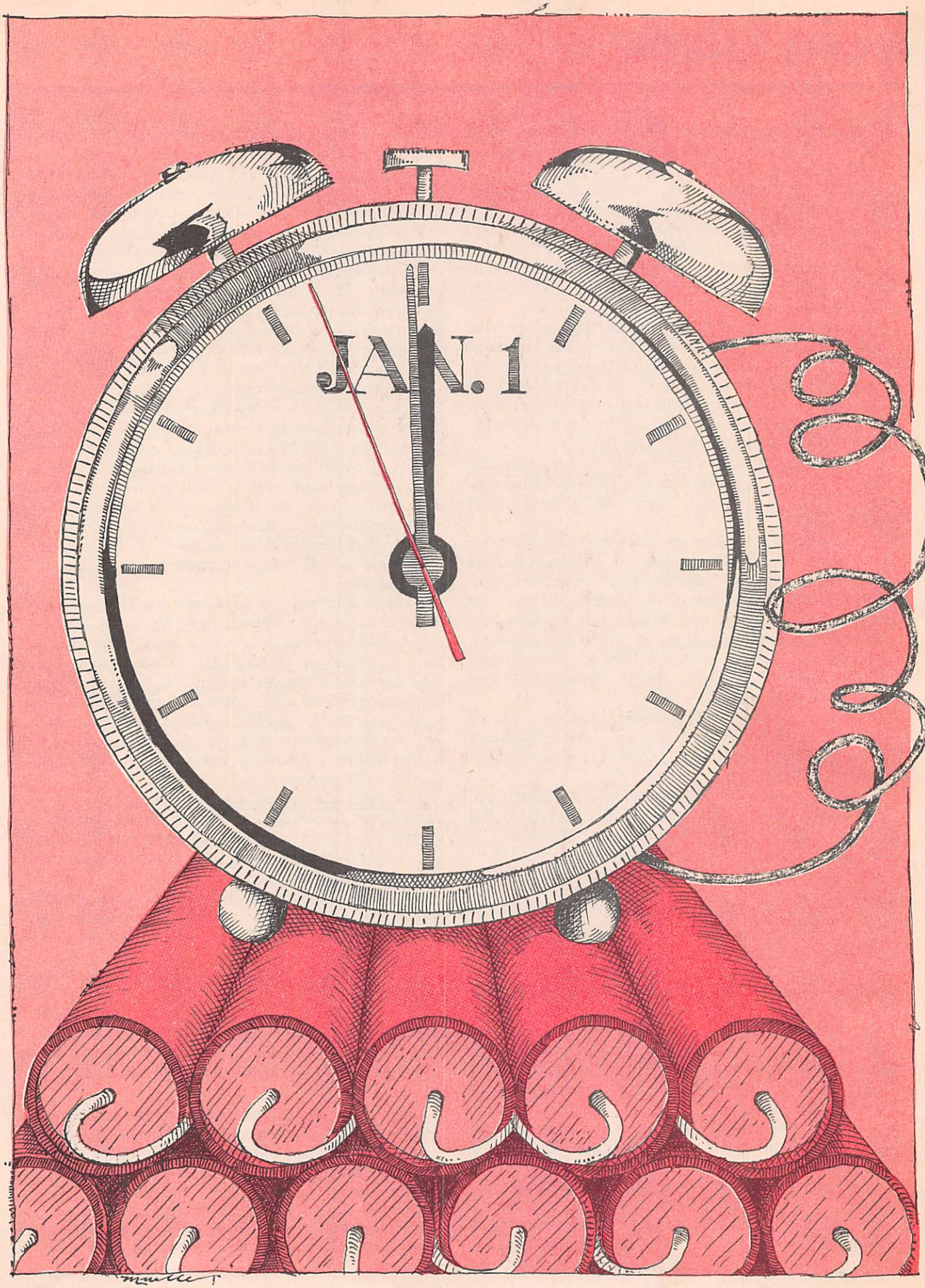
Half Cents—1797, Plain edge, Good; 1811, Very Fine; and 1825, Extra Fine.

Large Cents—1798, 1st hair style, Very Fine; 1799, Good; 1806, Fine; 1817, 15 Stars, Extra Fine; 1823, Fine; 1824, Extra Fine; and 1825, Uncirculated (MS-60).

Lincoln Cents—1909-S and 1914-S, Uncirculated (MS-60).

Finally, 1987 also may be a good year for Circulated Indian Head cents; dealers already have been paying $21 for good and better rolls of 50 pieces—several dollars ahead of usual *retail* prices. □

By Don Bale Jr.: *Publisher of "The COINfidential Report," a coin and stock market newsletter and advisory service; coin and book dealer, P.O. Box 2727, New Orleans, LA 70176.*


JAN. 1

Year-end planning always saves money, but this year, you've got to make the most of the old rules while you prepare for the new.

YEAR-END TAX TIPS

By Pat Brown

On October 22, President Reagan signed into law legislation that he characterized as "the most sweeping overhaul of the tax code in our nation's history." It may indeed be that, although taxpayers of the future will certainly not honor October 22 as a holiday commemorating freedom from taxation.

But the changes are profound—and probably, ultimately, for the better. No matter what the long-term effects, however, the short-term changes will be a nuisance. As a taxpayer, you will have to immediately think about the variety of ways the new law will affect you—especially during the period of transition from the old law.

This year, as last year, the best overall tax strategy is to defer and deduct. Amassing legitimate deductions, of course, is always a good idea—as is deciding in which year to take them. This year it is especially important because many of the deductions taxpayers have routinely claimed will no longer be available in 1987. Basically, it's now last call for a bunch of deductible goodies.

A defer strategy, on the other hand, only works when there is certainty that the tax rates in general, or your personal tax rate, are going down. The tax rate is going down in 1987, although not as low as is commonly thought. The widely hailed, two-bracket tax system, with rates of 15 and 28 percent, doesn't go into effect until the beginning of 1988. "There's a lot of confusion about this," says Joseph Oberman, a certified public accountant who runs his own firm, Joseph L. Oberman, Ltd. "Many people are under the impression that the two-bracket system starts up next year, when, in fact, there will be five rates." These will range from 11 percent to 38.5 percent during the transitional year of 1987. Nonetheless, rates will be lower next year, so any income deferred until then will be subject to less tax.

A review of specific methods of the defer-and-deduct strategy will illuminate the variety of money-saving decisions still available to you in 1986. During the review, be mindful of three corollaries of the strategy. First—since tax reform did not result in tax simplification, at least during the transitional phase—see your financial advisor now, before 1986 ends. Second, do not take any action based on tax reasons alone. Third, remember that there are always two sides to any investment and tax planning decision.

The defer strategy. Depending on the difference between your current tax bracket and the one you will be in next year, you may still be able to save on taxes in 1986 by deferring income to 1987. But check your personal situation thoroughly. A large variance in the amount of income you receive next year could negate the overall changes in your tax rate.

Remember, you cannot arbitrarily decide to defer income by not cashing your paycheck until next year. Rather, arrange for bonuses and commissions due to you to be paid in January, 1987. If you own a business, you can defer income by billing customers in late December and hoping payments will not come in until January.

In addition to shifting the time that income arrives, there are other methods of deferment.

● *IRAs.* For some people, 1986 will be the last tax year to defer any income by contributing to an Individual Retirement Account (IRA). For others, 1986 will be the last year that a full $2000 contribution can be deferred. But everyone can still defer up to $2000 this year. And the best advice is still that virtually everyone who can afford to contribute, should.

● *Keogh Plans.* If you are self-employed, you can still defer up to $30,000 by contributing to a Keogh Plan. The tax law does not change this

ILLUSTRATION BY ROB MUELLER

in any way. You must set up a Keogh Plan before December 31 to defer 1986 income, although actual payments can be made until the filing date of your 1986 return.

● *401(k) Plans*. This is the last year you can defer as much as $30,000 in income through your employer's 401(k) plan. Under tax reform, the maximum amount that can be contributed is $7000. If you have access to a 401(k) plan, this should not be cause to panic in 1987. "That's not such a dramatic change as it's made out to be," says Patrick Dunne of Edward D. Jones & Co., a brokerage headquartered in St. Louis.

Under 401(k) rules, a company's higher-paid executives can only contribute a percentage of what bottom-rung employees put in.

The deduct strategy. With President Reagan's signature still fresh on the new tax bill, this will be the last year you can take certain deductions—until, of course, the tax law is again revised. Be sure to take advantage of any legitimate deduction opportunities you have.

● *State sales tax deduction*. Under tax reform, the state sales tax deduction will be repealed. So, if you've been intending to buy a big-ticket item, such as a car or a boat, do it before December 31. But only do so if you were going to make the purchase anyway. As John Glasgow, a certified financial planner for Dawson & Associates says, "To spend $15,000 or more on a new car just to save a few hundred dollars in taxes is not good economic planning. It's silly."

● *Consumer-interest deduction*. Deductions for interest on consumer debt will be phased out by 1991, under the new law. This is the last year you will be able to deduct 100 percent of your credit card interest. You'll only be able to deduct 65 percent next year, and that percentage will be reduced annually until the deduction disappears in 1991. So, if you tend to let your interest charges mount up on your credit cards with the consolation that you can deduct those charges on your tax return, think again—particularly during the holiday gift buying time.

● *Two-wage earner deduction*. This too will be the last year this deduction will be available. If you have been planning a 1987 wedding, you could move it up to 1986—perhaps a quiet civil ceremony—and save some money.

● *Property and income tax deductions*. There are no changes under the new tax law here. However, if you expect to be in a lower tax bracket next year, you'll get a greater tax benefit by paying all your 1986 property, state, and federal taxes before year-end. If you can afford to, prepaying these taxes for 1987 also makes sense if you really need the extra deductions this year to offset income. The same is true if you pay estimated taxes. Remember, though, to weigh your potential tax savings against the interest you could earn on the money if you didn't use it to pay taxes.

● *Charitable contributions*. Nonitemizers lose out here, too. For them, the new tax law will render their charitable contributions nondeductible. So, if you are a nonitemizer, it would be wise to take advantage of this deduction before 1986 ends. This is particularly appropriate if you would be making this contribution sometime early in 1987, anyway. Remember, you can donate cash, clothes, or furniture and deduct up to 50 percent of their value with no ceiling limit. Value is the key word here, though. In case the IRA asks, you'll need to be able to prove the value of your donations with receipts. And don't forget, you can make cash donations with a credit card. Just say "Charge it!" by December 31.

● *Contributions of appreciated property*. If you have appreciated property to donate, and there's a chance you'll have to calculate AMT next year (see box), you had better donate the property before year-end. Under the new AMT rules, contributions of appreciated properties will be considered a tax preference item next year.

● *Medical-expense deductions*. Currently, you can deduct that portion of your medical expense that exceeds five percent of your adjusted gross income. The new law raises that to 7.5 percent. Therefore, if still possible, move up any costly medical operations or therapy into 1986.

● *Income averaging*. The new tax law repeals income averaging. So, if you qualify, you had better take advantage of this deduction in 1986.

● *Dividend exclusion*. The dividend exclusion currently allowed may be, as Patrick Dunne characterizes it, "modest" ($100 for individuals, $200 for joint filers). "Nevertheless," he says, "it's a little perk that's gone under the new law." Make sure you take advantage of this, this year.

● *Mortgage-interest deduction*. For most people, the changes in the handling of the mortgage-interest deduction will make no difference this year or next. The new law, however, does add some restrictions that may affect people who own more than one home, or who treat mobile homes or boats as second homes. Despite the President's signature, this is still an area of uncertainty. If you own a mobile home, a boat, or more than one home, you might check with your tax advisor to see specifically about the wisdom of doubling up some payments before year-end.

● *Long-term capital gains*. Some of the new tax law's most significant changes are in the area of capital gains. Under the old tax law, the highest effective tax rate on long-term capital gains was 20 percent. The new tax law will treat these gains as ordinary income to be taxed at a 15 or 28 percent rate. Since most people who have capital gains are in the upper bracket, the rate, in effect, will be 28 percent. (Note: During the transitional year of 1987, when there are five tax brackets peaking at 38.5 percent, the ceiling on long-term capital gains rates will be 28 percent.)

On the surface, it would seem wise to take long-term capital gains in 1986 before the rates go up. But remember the second and third corollaries of the defer-and-deduct strategy: Do not do anything for tax reasons alone, and know the reasons why you should *and* shouldn't sell your long-term capital assets now.

Why should you sell long-term capital assets now? Obviously, the best reason is to take advantage of the lower 1986 rates. And why shouldn't you? Perhaps the asset hasn't appreciated considerably since you bought it, but promises to do so. You might come out ahead by holding the asset until it does appreciate in 1987 or later.

Some financial advisors suggest that in 1986 you sell any asset that has a long-term appreciation of 35 percent or more and then, after waiting the 30 days required by the wash-sale rule, buy it again. You will be paying additional commissions, but they may be more than offset by your future capital gain.

Dawson & Associates' Glasgow has an even simpler approach He says, if you were not going to sell the asset within the next year or so, anyway, do not sell it now just to get the lower tax rate.

● *Long-term and short-term capital losses*. Under the new law, both long-term and short-term losses will be treated the same. Both will be able to offset capital gains and ordinary income dollar for dollar. So 1986 will be the last year that short-term losses enjoy a two-

continued

INVESTMENT PLANNING UNDER THE NEW TAX LAW

After you have done all you can to minimize your 1986 tax bill, it's none too soon to start reviewing your portfolio in the context of the new tax law. As always, your review will benefit from the advice of your tax counselor.

● *Real estate.* "Your home will still be your best tax shelter," says Bob Pivar, who offers a variety of financial services through his own firm and through Southmark Financial Services. Pivar notes that, in addition to the restriction the new tax law places on the mortgage-interest deduction, homeowners will also be affected by the new law's longer depreciation schedule.

Real estate, in general, is still considered a good investment under the new law. "I feel real estate will be stronger," says Pivar. "There will be less property being built because we won't be able to raise venture capital to build. Therefore, property values (on existing buildings) will go up."

"Real estate," says Patrick Dunne, "over the long-term will do just fine." Dunne attributes real estate's favorable outlook to the construction industry's loss of several tax advantages under the new law, such as the investment tax credit. Like Pivar, he also thinks the supply of housing will decline as a result.

Real estate investors, however, should take note of the changes the new law makes in this area. The most significant are the restrictions pertaining to passive-activity losses. Now, any real estate investment activity that you do not materially take an active role in will be considered passive—and will generate passive income. Losses from this kind of investment will be considered passive losses.

Under the new law, passive losses can only offset passive income—not active income, such as salary. Significantly, limited partnership activities will be considered passive. So will rental business activities with one exception: Individuals can deduct up to $25,000 a year of net passive rental losses against active income if they take an active role in the business, and if their adjusted gross income is less than $100,000.

Assume you've invested in a mall through a limited partnership. The mall's losses exceed its income for the year. In the past, these losses could be passed on to you to deduct and reduce your taxable income. Now, from 1987 on, if you don't have enough passive income to cover your losses, you will have to carry forward those losses to future years.

These new restrictions on passive-activity losses have many investors concerned, but perhaps unnecessarily, says Dunne. First, the write-off isn't going to be lost overnight. Rather, the restrictions will be phased in over five years for investments made before October 22, 1986. Second, the greatest tax advantage of real estate usually occurs in the very beginning and begins to phase out after the first few years.

And, according to John Glasgow, the new law's clamp on tax shelters will make people "look at more economic deals, which makes a lot more sense."

● *Stocks.* With the loss of the lower long-term capital gains tax rate, income stocks are going to look as attractive as growth stocks. Many growth stocks do not pay dividends, and with the lack of tax advantages in capital gains, Dunne says, "Now, I'd just as soon have dividends as gain." In fact, he says, income and growth stocks "will be on an equal footing, and so I think there'll be a shift toward income-type stocks."

In addition to this shift, Dunne sees another move toward stocks in the service and information sectors, due to heavy industry's loss of the investment tax credit. The service and information industries will be paying less under tax reform.

According to Dunne, advertising, banks, and financial services; health care; and consumer nondurables, including restaurants, food and beverage processors, retailers, broadcasting, and entertainment companies are the winners under tax reform. One caveat, however, is that while banks will be paying lower tax rates, they will no longer be exempt from federal tax on municipal bonds.

● *Municipal bonds.* "Municipal bonds," proclaims Dunne, "are a screaming buy today when you can get 7¼ percent on an insured municipal bond that is AAA rated." Some investors might consider the tax-free interest earned on municipal bonds less valuable under the new law because the overall individual tax rates have lowered. Under the old law, Dunne explains, someone in the 50 percent tax bracket who gets 7½ percent on a municipal bond would have to earn 15 percent on a CD to get the same aftertax value. After reform is in place, that same person will be in a 28 percent bracket (in 1988), so the same "bond is only going to be as valuable as, say, 10 percent, not the 15 it was earlier. *But* that real value of 10 percent is extraordinary right now."

"If people realized the real value of bonds," says Dunne, "they'd be out there bidding up the prices by buying them."

Glasgow agrees and points out that if interest rates go down further, a commonly predicted reaction to tax reform, municipal bonds will look even more attractive. "People who buy munis now paying seven percent will be real happy in two to three years, when rates drop to four percent."

Note, however, that the new law makes some changes in the handling of munis. Under the law, they are broken into three categories: Public-purpose bonds or essential; nongovernmental; and nonessential. Public purpose bonds are tax exempt. Nongovernmentals may or may not be subject to taxes, depending on whether or not the payer is subject to the alternative minimum tax (AMT). AMT is a second tax system with a broader base of taxable income subject to a designated minimum tax. It is calculated by adding back in some tax preference items. Check to see if this affects you. The third category of munis, nonessential, are subject to tax.

Exceptions apply to all three categories. Again, check with your advisor. And for all bonds, Glasgow warns, be sure to get adequate call protection.

● *Mutual funds and money market accounts.* The same concerns that apply to stocks in light of tax reform apply to mutual funds. Investors should be sure they are in mutual funds positioned to fully exploit the tax law changes.

The return on money market funds will probably continue to drop. In fact, as Glasgow points out, a continued drop in interest rates in general could spell the end of the money market fund concept. They were, after all, created to give funds a way to compete with high T-bill rates—rates that are high no longer.

● *Annuities.* "Annuities," according to Dunne, "come out strong winners . . . under tax reform. I have never done as much annuity business as I have over the last few months."

Pivar thinks annuities are good ways to defer tax both before and after reform. He especially recommends variable life insurance policies. They invest in various instruments, and you can borrow against them at a low interest rate.

Glasgow takes a different view. As an investment, he feels insurance is generally too expensive to administer, and it pays a very low minimum interest rate. And, if interest rates collapse, the rate of return will probably drop to the guaranteed minimum.

● *Individual Retirement Accounts.* IRAs will still be generally attractive under the new law. Even if you cannot deduct your contributions, you will benefit by earning tax-deferred interest. "If you know you're putting money away for 20 years," says Stephen Corrick, a partner in the Tax Division of Arthur Andersen & Co.'s Office of Federal Services in Washington, DC, "tax-deferred compounded interest can become fairly powerful."

to-one edge over long-term capital losses. (Through the end of 1986, short-term losses are fully recoverable up to $3000, while only 50 percent of long-term losses are deductible.) Since losses taken in 1987 will reduce the bigger tax bite on capital gains, many advisors suggest that you delay taking a loss until next year. But, even more than in other areas, it is strongly recommended that you check with your own financial advisor before making a decision.

● *Short-term capital gains*. Under the new law, as under the old law, short-term capital gains are taxed as ordinary income. So defer your short-term capital gains until next year, when the tax rates will be lower.

● *Political contributions*. Make political contributions now because they will no longer be deductible after the first of the year.

● *Student loans*. You may want to accelerate your student loan payments to deduct the interest on your 1986 return. This will be your last chance to take this deduction. If you are paying a low interest rate, though, you may not save anything in the long run.

● *Miscellaneous expenses*. Several miscellaneous expenses that were deductible for itemizers and nonitemizers under the old law will now be only deductible for itemizers—and then only if each specific item exceeds two percent of adjusted gross income. These expenses include unreimbursed employee business expenses, such as travel expenses of employees incurred while away from home; transportation expenses while on business; expenses of employees who are outside salespeople; union and professional dues; coursework costs; expenses of producing investment income; and expenses for tax return preparation.

In spite of the loss of this last deduction for most people, tax advice is obviously very important this year—and it is still deductible for 1986. This article has been a survey of some of things you can do before the end of 1986 to improve your tax position. As such, it should serve as a starting point for discussion with your advisor or for further independent research on your own. □

By Pat Brown: *Freelance writer; accounting firm consultant.*

Interest Rate News

Home equity lines of credit are the hot banking ticket under tax reform, and pioneer institutions are already promoting them full scale in Boston, Washington, Atlanta, Pittsburgh, and Florida.

A home equity line of credit resembles a second mortgage; it's a loan against the equity and appreciation in your home. Tax reform makes this type of credit line appealing because some of the interest paid is deductible, while that paid on other consumer loans is not.

Say, for instance, you purchased a home for $100,000 and have paid down the mortgage to half that amount. You can borrow $50,000 from the bank, use it for any purpose you want, and take a tax deduction on the interest.

If your home has increased in value by $25,000, you can write off the interest on the appreciated portion only if you use the money for home improvement or medical and education expenses.

Most lenders allow you to access a credit line by check, cash withdrawal, or credit card, and permit you to repay a small percentage each month before a final payment at the end of 10 or 15 years.

Moreover, the rates are very attractive at one to three percent over prime, resulting in a range of 8.5 to 10.5 percent. But at least one outfit is offering an introductory rate of 2.9 percent, good for a short time. And that's just one of a number of gimmicks you should watch for.

The bright-light advertising of these "benefits," though, is obscuring several costs, particularly inactivity and annual fees. For example, if you don't tap your reserve account for a minimum amount at least once during a calendar year, you could be charged as much as $150. Or you could pay $15-$35 just for the privilege of having the credit line. What's worse, you could be assessed $300 if you close out the account within one year of opening it. There are other subtle costs, such as automatically being debited $100 at closing.

Because those costs generally don't appear until after you're stuck with the credit line, it's important to ask about them before signing. Make sure the loan officer explains every conceivable fee and charge.

Furthermore, be sure to learn the index to which the home equity rate is tied and how often that can change. Though the prime rate published in *The Wall Street Journal* is the most popular index, some lenders use the Treasury bill rate or devise their own in-house formula. You don't want a rate that you can't follow.

While you're pondering home equity, here are some of the highest yields at federally insured institutions nationwide, as of October 22, 1986:

● Money Market Deposit Account (MMDA): Colonial National Bank, Wilmington, DE. Stated rate 7.00%, compounded daily to yield 7.25%.

● 6-month CD: Meridian Savings, Arlington, TX. Stated rate 7.05%, compounded quarterly to yield 7.24%.

● 1-year CD: Pacific Coast S&L, San Francisco, CA. Stated rate 7.25%, compounded daily to yield 7.52%.

● 2½-year CD: Pacific Coast S&L, San Francisco, CA. Stated rate 7.50%, compounded daily to yield 7.79%, with an average annual yield of 8.25%.

● 5-year CD: Commercial Credit Bank, Baltimore, MD. Stated rate 8.10%, compounded monthly to yield 8.40%, with an average annual yield of 9.95%. □

By Robert K. Heady: *Publisher, "100 Highest Yields" and "Bank Rate Monitor," P.O. Box 088888, N. Palm Beach, FL 33408. "100 Highest Yields" is a weekly newsletter that tracks the highest yields nationwide on MMDAs and CDs from federally insured banks and thrifts.*

SPECULATIVE PORTFOLIO

Low-Priced Stocks

Although it is ahead on balance, the Speculative Portfolio has made little headway since the last issue of MONEY MAKER. The last two months have been a virtual standoff. But this is not particularly distressing, since the Amex and NASDAQ have been declining over the period. That is, by standing still (rather than declining), the Speculative Portfolio has actually outperformed the market, however minimally. But we are used to better performance than that, so we'll review the entire section and make a few adjustments.

But remember, our feeling about the market is far from sanguine (see the Portfolio, page 6). While we are bearish about the stock market as a whole, we are perhaps even a little more negative regarding the low end of the market, as opposed to blue chips. The point is simple: Even though the chance for large percentage gains still exists in low-priced stocks, the risks may be somewhat greater than usual. In other words, be careful.

Generally speaking, this section has done fairly well. Computer Factory was hit but now looks to be recovering. The fundamentals for the company are exceptionally bright, and we recommend that you hold. B-A-T Industries has been a slow and steady performer ever since we first recommended it, and we still think it has some distance to go—another definite hold. Likewise, ACI Holdings is a good hold. Envirodyne Industries has been outstanding, but in light of our misgivings about the market, we'll move the stop up to double the purchase price. In addition, First Pennsylvania has been performing extremely well (takeover rumors), and the stop should be moved up to $7.

Weaker "hold" recommendations apply for BEI Holdings, Safeguard Scientific warrants, LVI Group, BRT Realty, RAI Research, and Centronics Data. All deserve a little more time.

Two positions have been stopped out—Aileen and Gruntal Financial—each for a small loss. We also recommend that you sell First Western Financial. It looks "toppy," and you may as well take the profits. Finally, the positions recommended last issue—International Mobile Machine and Marcade Group on the long side, and the short sales of Aceto Corp. and Atlantic Southeast Airlines—should all be given more time to develop.

Replacing the three removed positions are four new recommendations—three purchases and one short sale.

First, buy DWG Corporation, an Amex-traded holding company largely involved in the distribution of natural gas. At just under $3 per share, it's worth the risk. Second, buy Technical Tape, a manufacturer of industrial and consumer tapes, such as for bedding. The chart looks good. Our third purchase recommendation is Thomas Nelson, a book publisher and manufacturer that is best known as a large publisher of Bibles and other religious books. The price is depressed due to losses stemming from an unfavorable tax settlement and a too-aggressive expansion program. The company has cut back and now looks ready to move up.

Finally, sell Compudyne short at 20¼. Remember that with short selling, you are borrowing stock (your broker will take care of the mechanics) and selling it in the hope of replacing the borrowed shares at a lower price. Your profit is the difference. Meanwhile, you are trading on margin, which means you borrowed half of the price from your broker, and you pay interest on the loan.

There are those who feel short selling is riskier than purchasing stocks for appreciation, although in truth short sales are no more risky than any other margin transaction. But if you're not comfortable selling stock short—for whatever reason—just don't do it. The trick to successful investing is the ability to sleep well at night, and if short selling troubles you, concentrate your attention on our long recommendations. □

SPECULATIVE PORTFOLIO

Stock	Symbol	Exchange	Date Recommended	Purchase Price	10/28/86 Price	Stop	Recommendation
Computer Factory	CFA	Amex	10/1/84	5¼*	13¼	10	Hold
B-A-T Industries	BTI	Amex	12/1/84	3¼*	6⅜	4	Hold
ACI Holdings	ACF	Amex	8/1/85	9*	9⅜	7⅛	Hold
Envirodyne Industries	ENVR	OTC	2/1/86	8	21⅜	17	Hold
First West. Financial	FWES	OTC	2/1/86	7⅛	8¾	—	Sell
BEI Holdings	BEIH	OTC	2/1/86	8½	10¼	8¾	Hold
Safeguard Sc. warrants	SFEWS	NYSE	4/1/86	3⅛	4¼	2¾	Hold
Aileen	AEE	NYSE	4/1/86	4	—	3½	Stopped
First Pennsylvania	FPA	NYSE	4/1/86	8½	9	7	Hold
Gruntal Financial	GRU	NYSE	4/1/86	8½	—	7¼	Stopped
LVI Group	LEH	NYSE	6/1/86	5¼	3⅞	2⅛	Hold
BRT Realty Group	BRT	Amex	6/1/86	11⅞	15¼	13½	Hold
RAI Research	RAC	Amex	6/1/86	8½	6¾	6	Hold
Centronics Data	CEN	NYSE	8/1/86	6¼	7¼	4½	Hold
Int. Mobile Machine	IMMC	OTC	10/1/86	13¾	13⅝	8⅞	Hold
Marcade Group	MAR	NYSE	10/1/86	1⅜	1½	⅜	Hold
(short) Aceto Corp.	ACET	OTC	10/1/86	18½*	18	20¾	Hold
(short) Atlantic Southeast Airlines	ASAI	OTC	10/1/86	10⅜	10¾	15	Hold
DWG Corp.	DWG	Amex	12/1/86	2⅞	2⅞	1⅜	Buy
Technical Tape	TTI	Amex	12/1/86	6¾	6¾	4⅞	Buy
Thomas Nelson	TNEL	OTC	12/1/86	10	10	6½	Buy
(short) Compudyne	CDC	Amex	12/1/86	20¼	20¼	24⅜	Short

**Price adjusted to reflect receipt of dividend.*

Note: Stops adjusted upward on Envirodyne Industries and First Pennsylvania.

Money Maker

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BUSINESS LANDLORD

Continued from page 32.

● **Zoning**—Find out if the zoning laws will permit your projected use of the property. If not, can zoning be changed to arrive at higher and better use of the land?

The fun begins once you're comfortable with the idea of investing in business property. Be prepared for a lot of driving around and negotiating deals that don't come together before you'll find one that clicks. Here are a few suggestions to help you get started:

Seek out buildings that can be converted to more profitable uses.

Old warehouses make fine offices, apartment buildings, restaurants, *new* storage facilities, and a variety of other uses limited only by your imagination.

A growing trend that may interest you is conversion of elderly structures into "incubators" for fledgling businesses. (See "Hatching Profits With Real Estate Incubators" in the August/September, 1985 issue of MONEY MAKER.) Remodeling is minimal to hold rents down, and the landlord often takes a piece of the action in any young enterprise that locates in his or her building. Some cities even offer financial incentives to property investors willing to develop incubators. (For information on incubators, write to the Office of Private Sector Initiatives, SBA, 1441 L St., N.W., Suite 720-A, Washington, DC 20416.)

Occasionally, you may see an inexpensive but totally obsolete structure on land that is relatively close to economic activity. Don't discount the value of tearing the building down, converting the land into a parking lot, and then waiting until the time is right for rebuilding. Parking lots earn money and buy time for their owners.

Schools, too, frequently come up for sale. You might consider buying one (if the price is right) and converting it to apartments, low income housing, condominiums, a shopping center, or highly profitable senior citizen group housing.

Consider what else you can do with run-down properties to increase yield.

City growth and zoning changes often leave single family houses perched oddly between more conventional commercial structures, such as gas stations and freestanding stores. As residential housing, these properties are losers. But you might consider converting them, through the use of clever architectural features, to offices or retail space. The result: Higher earnings for your dollars invested.

Or you might find a well-located row of houses and convert them into a strip shopping center. Shopping mall development has tapered off, since most markets have all the malls they can support. On the other hand, strip centers are thriving and, despite lower per-square-foot rents than malls, strip centers are yielding higher returns to investors. Mall rentals range from $14 to $35 per square foot, while strip centers range from $4 to $15. Yet the latter, according to some analysts, provide 10 percent cash returns their first year as opposed to 7.5 to eight percent mall yields.

Obsolete gas stations also convert well to other uses, including real estate offices, fast-food restaurants, and small business sites such as dry cleaners, furniture strippers, and so forth. Most major oil companies maintain lists of "for sale" properties which you can obtain from the company directly or from your local commercial/industrial real estate specialist.

Don't overlook obsolete industrial buildings.

The northern tier of states is replete with abandoned factories that are seeing new life as "loft" apartments. First made popular by Manhattan artists, the concept is moving westward to industrial cities, such as Pittsburgh, Philadelphia, Chicago, and St. Paul. The term "loft" is used freely by developers to promote anything with high ceilings and exposed pipes. The idea works well in New York City where residential housing is extremely costly, but has merit elsewhere, too. If the idea appeals to you, be sure your city will allow a zoning change from "industrial" to "residential" and that financing is available for your conversion.

When you're out scouting bargains, beware of problem properties.

Problem properties, for example, would include an unoccupied commercial building with no parking for tenant customers. Or a seemingly good property that's not hooked to a sewer. Or perhaps a building facing huge road assessments, impact fees, or other massive government-imposed costs. Remember, where there's a suspiciously low price, be sure you know the reason.

Bargains are out there. The trick is to seek underutilized properties that can be converted to the most profitable, long-term use for you. □

By Cindy McCartney: *Investment property realtor; freelance investment writer.*

I GOT SO DARNED MAD...

You may know me. My name is Philip J. Neimark, and I frequently used to write for Consumers Digest, and was also financial editor of Money Maker Magazine. But well before that, I was a professional trader — and made so much money that I quit working in 1974 and retired to Florida. To help keep watch over my money, I subscribed to several investment newsletters, and was appalled at the poor advice offered. It was all amateurish — obviously not written by professional traders — not written by anyone who understood the markets. I got so mad, I decided to write my own — to write from a professional trader's point of view.

My first newsletter was wonderfully successful. When gold was selling for $140 an ounce, I urged investing in gold, and those who took my advice were rewarded by seeing gold skyrocket to $870. (Actually, I recommended selling shortly before the peak, so my clients were able to get out before the bubble burst.)

In December, 1984, I told my clients that the OPEC oil cartel was "crumbling," and oil prices would sink. Others scoffed, but you saw it happen. In January, 1985, I said that the Dow Jones Industrials would reach 1500 by the end of the year. Others thought it ridiculous, but you saw that happen, too.

Please pardon me if I seem to brag. That is not my intention at all. I only want to emphasize that it is possible to foresee major economic trends if events are analyzed logically. That is why I often write about world affairs, trade balances, interest rates, and other factors which control the basic value of various investments.

Now, Here Is Investment Advice That May Be Even Better Suited To You

Most Americans do not have a fortune to invest. Most are middle income people with modest savings. And yet, stock brokers and other advisers usually talk about relatively high-priced stocks in the $25 to $100 range — or else about "penny stocks," which almost always turn out to be bad buys. Frankly, with limited funds, there was no good way for "middle America" to trade effectively. So, to answer the need in a realistic way, I began to publish LOW-PRICED STOCK EDITION.

Each issue of LOW-PRICED STOCK EDITION features three to five specific stock recommendations priced under $15 per share. In most cases, these are smaller and relatively unknown companies, and yet they are actively traded. Each stock is selected by me personally, and has a potential capital appreciation of at least 50% — and as much as 200%. In other words, I expect a continuing PROFIT EXPLOSION in stocks explored by — and recommended by — LOW-PRICED STOCK EDITION. I respectfully suggest that you should investigate this type of investment.

We have not seen the end of the Bull Market. Yes, there are always inevitable ups and downs, but it is my firm belief that the Dow Jones will rise to 3500 within the next 36 months, and smaller companies will benefit immeasurably. Many people will profit, but some will do much better than others. How about you? Will you maximize your gains? Will you allow me to help you by putting you on my mailing list to receive LOW-PRICED STOCK EDITION?

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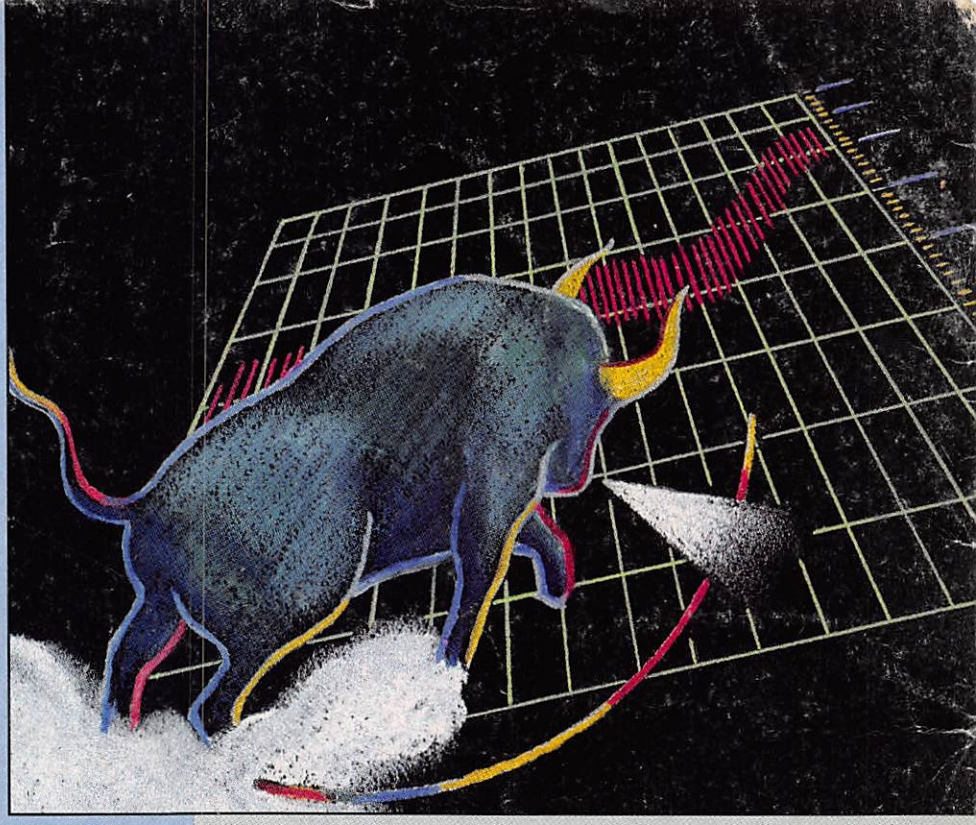

GET READY FOR THE THIRD LEG OF THE BULL MARKET—Bull markets in stocks "climb a wall of worry," as the saying goes, and if that's true, the current bull market is far from over. It could still abort, but it now looks as though 1987 will see some solid upside action as the bull market enters its third stage. Now's the time to position yourself for some hot profits.

ROLLING OVER HOMES FOR PROFIT—The best sector of the real estate market in 1987 could well be single family homes, and you can easily get in on the gains. First-time buyers can occupy a house while they fix it up for profitable sale. If you presently own a home, you may be able to use your current equity to make another purchase and repairs. The bottom line is simple—a year or two and some work can mean tens of thousands at sale.

THE REALITY OF SAVINGS YIELDS—Just when you got used to double-digit returns from insured investments, interest rates started to drop. Now, the safest vehicles barely beat an ordinary, passbook savings account. What now? If you want absolute safety, you've got to go out for as much as 30 years, or you've got to accept low rates. Here's a look at the alternatives in a low-yield world.

The third leg up

Profitable homes

Savings yields

BEST BUSINESS OPPORTUNITIES FOR 1987
TAX SHELTERS UNDER THE NEW RULES
HOT PLAYS IN INTERNATIONAL BOND FUNDS
WHAT YOUR INVESTMENTS *REALLY* COST

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